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USI Advisors, Inc.

Market Update

July 2016 Review

"Markets Remain Resilient Among Uncertainty"

The initial financial market reaction to the UK's decision to leave the Eurozone faded in early July as investors realized that the terms of the separation will likely play out over a number of years. The markets produced robust returns for the month. Even developed markets that were more directly impacted by the outcome of the Brexit finished the month in the black. Overall, we didn't see the same level of volatility that has dominated the markets so far this year.

Back in May, the common theme was that we would experience increased volatility in the summer given political events and mixed economic data. However, when comparing volatility in recent months to historical levels over the last 20 years, there is not a significant difference. In particular, July was less volatile than normal, even when you take into account the Republican and Democratic national conventions. Even disappointing economic developments didn't put pressure on *markets*. The first reading of second quarter GDP came in at 1.2% while the first quarter number was revised down to 0.8% from 1.1%. The drag was mostly caused by a drop in inventories, but investors' concerns about the economy stalling might have been tempered by a surge in consumer spending. Housing, which has been one of the consistent bright spots in the economy, showed signs of weakness as residential investment fell for the first time in two years by 6%. However, home sales continue to be positive and have increased 10% in the first half of the year compared to the same period in 2015. Overall, despite geopolitical risks, uncertainty about Fed policy and mixed economic data, markets have performed exceptionally well this month and year. The S&P 500 gained 3.7% in July and is up 7.7% year to date. The Dow Jones Industrial Average rose 2.9% during the month and has gained 7.4% since the beginning of the year. The biggest monthly gain was posted by the NASDAQ at 6.6%, and the index is up 3.1% year to date. Looking at these returns, it is hard to imagine that we experienced a sharp correction at the beginning of the year and following the Brexit vote.

	July 2016	YTD
DJIA	2.94%	7.38%
S&P 500	3.69%	7.66%
NASDAQ	6.60%	3.09%
MSCI EAFE	5.07%	0.42%
MSCI Emerging Markets	5.03%	11.77%
Barclays Aggregate	0.63%	5.98%
Barclays Corp High Yield	2.70%	12.01%
	7/31/2016	6/30/2016
US 10-Year Treasury Yield	1.46%	1.49%

Britain's referendum decision to leave the EU will likely have long term consequences, both economical and political. The National Institute of Economic and Social Research said if the UK had voted to stay in the EU, the country's economic growth in 2017 would be forecasted around 2.7%. However, since the vote to leave, the institute has lowered that forecast to 1% and gave a 50% probability of the country going into a recession in the next 18 months. A lot of investors are also pulling money out of the UK, further hurting their economy. Looking ahead, the UK's focus will be to secure the best economic deals they can with the EU. More specifically, trade negotiators will work to maintain access to the EU market for financial services. The days following the Brexit vote, European markets were down significantly but returned back to normal in July. The

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MSCI EAFE Index gained a healthy 5.0% in July, which brought the year to date performance back to positive at 0.5%. The MSCI EM Index was also up 5.0% during the month and has posted the largest year to date return in equity markets at 11.8%. Low global interest rates have been positive for Emerging Markets. Central banks in the developed world are pushing for low rates. Even in the US, the Fed was initially contemplating 4 rate hikes this year, then the expectations dropped to two, and it now seems that we may have one rate hike at most this year. Emerging markets tend to thrive under this rate system as the cost of borrowing capital is low. Fixed income markets also continued to rally as the Barclays Aggregate Bond Index gained 0.6% and the Corporate High Yield Index was up 2.7% in July.

It is important to take into consideration the impact that the U.S. presidential election may have on market volatility. Historically, markets have favored a divided government, where one party occupies the White House and at least one house of Congress is controlled by the other party. A divided government is perceived to keep checks and balances and to lower the probability of policies leaning too far on either political extreme. However, in this election, a Republican or Democratic sweep of the White House and Congress could cause significant volatility. Due to the extraordinary political environment we find ourselves in and the mixed economic data, investors may become more skeptical and more bearish through the rest of the year.

For previous market commentaries please click here.

An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this timeframe, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment. The higher the yield, the better the economic outlook.

G20: The Group of Twenty is an international forum that consists of the governments of 20 major economies.

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