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Market Update

August 2016 Review

"The Summer Ends Quietly... "

The month of August was an especially quiet time for markets in the U.S. In addition to investments across the board putting up conservative yet positive numbers, economic data was also very modest but generally in the positive direction. GDP and jobs proved a little underwhelming; however, August does have a reputation of being disappointing. In the rest of the world, the central theme was growth. Although emerging markets posted impressive numbers for the month, the G20 summit focused on how to combat slowing growth across the world going forward and experts reflected on the European Central Bank's Quantitative Easing program's effectiveness.

July was a very strange month for financial markets, as virtually all asset classes across the world experienced substantial appreciation, even as the Brexit was fresh on everyone's mind. August represented a very different situation: a generally modest step forward for markets and the economy with very little as far as notable global news. Among the more negative pieces of economic news was a modest GDP growth rate and an underwhelming job creation number of 151,000. With a second revision of 1.1%, the Q2 GDP growth reading was soft, yet higher than those of the previous two quarters, pulled down largely by inventory. Regarding jobs, although only about 30,000 under expectations, the jobs report in August has traditionally been a volatile and underwhelming number. Some economists actually attribute the statistical noise to the beginning of the school year. The Federal Reserve watches these key numbers closely to come to conclusions about the state of our economy and to help determine whether to increase interest rates. These numbers, therefore, serve as an additional piece of evidence that our economy may not be quite ready for monetary tightening.

As stated above, equity markets and economic indicators were largely positive this month, just to a very conservative extent. Consumer spending has been revised up since the first estimate for Q2 and currently sits at a relatively strong level of 4.4% annualized growth. A 1.9% rise in exports helped to cut the country's trade deficit to a smaller than expected level. Jobless claims continue to hover around historically low levels and personal income picked up slightly. The domestic equity markets experienced a similar conservative uptick, with the S&P 500 Index returning 0.1% for the month and the Dow Jones Industrial Average returning 0.3% for the month. Both indices are up close to 8% for the year thus far. Value and small market capitalization were more in favor this month, whereas higher yielding equities and lower volatility were not.

	August 2016	YTD
DJIA	0.26%	7.65%
S&P 500	0.14%	7.82%
NASDAQ	0.99%	4.11%
MSCI EAFE	0.07%	0.49%
MSCI Emerging Markets	2.49%	14.55%
Barclays Aggregate	-0.11%	5.86%
Barclays Corp High Yield	2.09%	14.35%
	8/31/2016	7/31/2016
US 10-Year Treasury Yield	1.58%	1.46%

The most recent G20 summit is set to be held in Hangzhou China at the very beginning of September and will consist of 20 key economies discussing the state of the global economic community. Among the main topics will be currency stability and the development of quality infrastructure around the world. Both of these topics are targeting stability and growth throughout the world. The MSCI EAFE showed signs of this lethargic growth this month, returning 0.1%. Emerging markets, as measured by the MSCI Emerging Markets Index, had a surprisingly strong month, returning 2.5%, and has posted a very attractive YTD return of 14.5%. Also, in the last week of August, the European Central Bank's Quantitative Easing program hit its 1 trillion Euro milestone, capping 18 months of aggressive bond buying and easy money. Given the regions 0.2% inflation rate relative to its target rate of 2%, some experts wonder how effective the program has been thus far. It is currently unknown how much longer the easing will continue. In fixed income markets, the high yield market, as expressed by the Barclays Corporate High Yield Index, returned 2.1% this month and has risen a very attractive 14.4% for the year to date period. The Barclays Aggregate Bond Index was about flat at -0.1%. The US 10 Year Treasury Yield showed signs of confidence increasing in the markets as well, considering the yield went from 1.46% to 1.58% month over month.

As the summer wraps up and fall peeks over the horizon, investors find themselves in a slow growth environment with no substantially positive or negative news. However, as the old saying goes, no news is often good news. One lingering mystery on investors' minds is which way the Fed will decide to go with rates during their next meeting. In general, although markets and the economy have been rather subdued compared to other months, the world could be in a much worse place economically than it is right now.

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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.