USI Advisors, Inc.

Market Update

September 2016 Review

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"November Election Puts Markets on Hold"

Markets were relatively flat in September but experienced increased volatility from the previous month. Investors anxiously awaited the FOMC meeting along with other economic data. Political uncertainty, both at home and overseas, continues to play a significant role in market volatility. Both presidential nominees are among the most unpopular in history and political unknowns around trade, tax reform and immigration could have an impact on investors' and consumers' behavior in the months ahead. A number of upcoming elections in Europe could also lead the market to begin to worry again about a European Union break-up.

Global markets volatility in September was mainly associated with political uncertainty in the U.S. and Europe. Investors' speculation about Fed policy also drove a short sell-off in the equity markets at the beginning of the month. On September 9th, the S&P 500, which had gone 51 trading days without a single one-day drop of more than 1%, fell 2.5%. Putting this into perspective, volatility still remains very mild compared to the recession scare we experienced at the beginning of the year. The Fed's announcement to hold rates steady, coupled with a few positive economic releases, allowed some markets to achieve a small gain in September and others to remain flat. The Dow Jones Industrial Average was the only domestic index down for the month but has gained a healthy 7.2% so far this year. The S&P 500 was flat for the month but has gained close to 8% year to date. The largest monthly gain was posted by the NASDAQ at 1.9%.

There were a few mixed economic releases during the month. The housing market exhibited strength and consumer confidence rose to the highest level in 9 years at the end of September. However, second quarter economic growth at the end of the month came in at only 1.4%. Overall we have experienced anemic growth of 1.5% over the last 4 quarters. GDP growth is probably one of the most closely watched readings by investors and the lack of meaningful growth during this recovery has been a major concern for investors. Slower growth trends have been reinforced by global demographic changes in our country. The baby boomer* population in the U.S. is the biggest group to reach retirement and by reaching this new phase, they are also taking away their spending habits. The millenials** on the other hand, are not contributing to economic growth either. Even though they represent the biggest demographic wave in history, they are spending less than the baby boomers. The millenials are loaded with student debt and they have not been able to easily find jobs, as there is a mismatch between their skills and job openings. Demographics play a huge role in economics. GDP growth is driven by population growth and savings/investment. Although we have the first criteria covered, we are significantly lacking with regard to the second.

	September 2016	YTD
DJIA	-0.41%	7.21%
S&P 500	0.02%	7.84%
NASDAQ	1.89%	6.08%
MSCI EAFE	1.23%	1.73%
MSCI Emerging Markets	1.29%	16.02%
Barclays Aggregate	-0.06%	5.80%
Barclays Corp High Yield	0.67%	15.11%
	9/30/2016	8/31/2016
US 10-Year Treasury Yield	1.60%	1.58%

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Political risk is also contributing to the current volatility. There has never been a time in our country's political history where two candidates running for the highest office are viewed so negatively by the electorate. The next administration will likely make important decisions on issues such as immigration, trade agreements and tax reforms. The election outcome will shape the political landscape in Washington for the next four years. However, there seems to be more uncertainty about the outcome of the vote than the policy proposals of either candidate. Historically, there hasn't really been a link between political negativity and economic uncertainty but the divisiveness of the election campaign could put negative pressure on businesses, consumers and investors in the next couple of months. Uncertain consumers may hold off on spending, investors may become more risk averse, and businesses may pull back on investment plans.

The same wave of political uncertainty has also hit Europe, as a number of Eurozone countries prepare for elections in the next twelve months: Italy, Portugal, Austria, the Netherlands, France and Germany. The UK referendum has shown these members that an exit from the Eurozone is possible and the general skepticism about globalization and immigration could potentially lead to negative results. Developed international markets were positive in September, which boosted the year-to-date performance for the MSCI EAFE Index to 1.7%. Emerging markets have also had a great run this year posting a double digit gain of 16.0%.

Fixed income markets posted mixed results as the Barclays Aggregate Index lost ground in September but the Barclays Corporate High Yield Index continues to rally.

Overall, financial markets remain in a state of limbo. There seems to be a lack of resolution in major issues such as Brexit negotiations, the November elections, oil prices and the future direction of monetary policy. Although current economic data suggests positive growth in the future, we have to wait and see how some of these economic and political issues play out. Most importantly, we are hoping that the cloud of political uncertainty will subside once the elections are over.

** Born between 1946-1964*

*** Born between 1985 and 2004*

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.