Eye on the Market Express: April 2016

MARKET DATA				
	March	3 Mo.	YTD	1 Year
S&P 500	6.60%	0.77%	0.77%	-0.39%
Russell 2000	7.75%	-1.92%	-1.92%	-11.07%
NASDAQ	6.84%	-2.75%	-2.75%	-0.63%
MSCI EAFE ($ basis)	6.02%	-3.74%	-3.74%	-10.67%
MSCI EAFE (local)	2.47%	-7.23%	-7.23%	-13.49%
UK (FTSE)	1.28%	-1.08%	-1.08%	-8.83%
Germany (DAX)	4.95%	-7.24%	-7.24%	-16.72%
Japan (NIKKEI)	4.57%	-11.95%	-11.95%	-12.75%
MSCI Emerging Markets ($ basis)	13.03%	5.37%	5.37%	-14.14%
Barclays Aggregate	0.92%	3.03%	3.03%	1.96%

All market data as of the end of March 2016. Quoted index returns are based on month end index prices (in local currency except where noted) and do not include dividends.

U.S. ECONOMIC DATA				
	March	Prior Month	Beginning of Year	1 Year Prior
10 year Treasury Yield	1.79%	1.74%	2.27%	1.93%
Gold (London pm fixing per ounce in dollars)	1,237	1,235	1,062	1,187
Oil ($ per barrel)	38.34	32.74	37.13	47.60
VIX Index	13.95	20.55	18.21	15.29

All economic and market data as of the end of March 2016.

The Federal Open Market Committee (FOMC) concluded its March monetary policy meeting by keeping the benchmark Federal Funds rate unchanged in a range of 0.25-0.50%. The Committee also reduced its projected rate hike trajectory from four hikes in

2016 to two, while trading after the announcement indicated the market expected only one hike this year. In comments at the press conference following the FOMC meeting, Federal Reserve Chair, Janet Yellen, acknowledged the FOMC's revised rate hike expectations, saying that "most committee participants now expect that achieving economic outcomes similar to those anticipated in December will likely require a somewhat lower path for policy interest rates than foreseen." She also commented on the effect of slower global economic growth on the U.S., stating that "since the turn of the year, concerns about global economic prospects have led to increased financial market volatility and somewhat tighter financial conditions in the United States," but that the U.S. "had proven remarkably resilient in recent months" to economic conditions outside the country. Regarding future FOMC decisions, Yellen stated that "proceeding cautiously in removing policy accommodation at this time will allow us to verify that the labor market is continuing to strengthen despite the risks from abroad."

Economic data released in March was mixed, with housing and labor data being generally encouraging, while data on the consumer and investment were generally negative. In terms of housing, new home sales for February beat expectations and rose 2.0% from the month prior to a 512,000 annualized rate. Existing home sales fell 7.1% to an annual rate of 5.08 million units when economists had expected a decline of 2.8%. However, the primary headwinds for existing home sales is low inventory, and pending home sales for February beat expectations by rising 3.5%. Housing starts, which will eventually lead to more inventory, also beat expectations, rising 5.2% from January, and while building permits declined for the month, this was mainly in the multi-family sector of the market. Single-family home permits actually rose. The S&P/Case-Shiller 20-city composite index held steady at an annual gain of 5.7% as of the end of January. Looking at the labor market, non-farm payroll additions for February were unexpectedly strong with 242,000 new jobs when 190,000 additions had been expected, and readings for January and December were also revised higher. The unemployment rate remained at 4.9% as the labor force participation rate ticked up to 62.9%. The U6 unemployment rate, which includes those working part time positions that would prefer full time, fell to 9.7%, its lowest reading since May 2008, and weekly initial unemployment claims throughout the month remained at subdued levels with all readings coming in comfortably below 300,000. Personal income data was also positive, rising 0.2% in February, which followed a 0.5% gain in January. Unfortunately data regarding the consumer was less encouraging, and despite most Americans benefiting from lower energy prices, there is little evidence that they are spending this windfall. Because consumption accounts for about 70% of U.S. GDP, this is mildly concerning. Consumer spending increased only 0.1% in February and January's strong reading of 0.5% was revised down to 0.1%. Conversely, Moody's reported that the savings rate rose 0.1% to 5.4%, the reading's highest level in a year. Another indicator of weaker than expected consumption is that both wholesale and business inventories rose in January. Orders for durable goods also declined 2.8% in February, and non-defense capital goods orders excluding aircraft, which are considered to be a proxy for business spending plans, decreased 1.8% in the same month. The Institute for Supply Management (ISM) manufacturing index inched up from its January reading of 48.2 with a reading of 49.5 for February, but it remained in contraction territory for the fifth straight month as any reading below 50 indicates contraction. Manufacturing only accounts for 12% of the U.S. economy, but the ISM non-manufacturing index, which includes the much more economically significant service sector, missed expectations and slowed to a reading of 53.4 in February. Inflation remained muted as the FOMC's preferred measure of inflation, the Personal Consumption Expenditure index, declined 0.1% in February, slowing its year-over-year growth to 1%, which is well below the Fed's 2% inflation target. If more volatile food and energy prices are removed, the index rose 0.1% for the month and 1.7% for the year. GDP for the fourth quarter of 2015 was also unexpectedly revised up from a 1% growth rate to 1.4%.

After beginning 2016 with steep declines, domestic equities posted gains in March and pared back losses for the first quarter. The benchmark S&P 500 rose 6.60% for the month, bringing its return for both the quarter and the year into positive territory with a gain of

0.77% or 1.35% if dividends are included. The tech heavy NASDAQ composite slightly outperformed the broad market in March with a 6.84% gain, but year-to-date the index is still down 2.75%. Small-cap stocks, as measured by the Russell 2000 index, performed the best in March, growing by 7.75%, although it is also still negative for the year with a 1.92% loss. Looking at trends for the first quarter, one can see that expectations for fewer rate hikes this year created winners and losers. Utilities stocks were some of the winners as they rose 15.56% in the quarter. Low interest rates help utilities stock prices by easing the costs of these companies' relatively high debt levels, and by making their dividend more attractive compared to fixed income options. Financial stocks were some of the losers as they declined by 5.06% for the first quarter. Lower interest rates put pressure on banks especially since they profit from the difference between what they pay on deposits and what they earn on lending, and lower interest rates prevent them from charging more on loans. In terms of style, after growth dominated value in 2015, value stocks outperformed their growth counterparts for the first quarter of the year with the Russell 3000 Value index growing 1.64% in the first three months and the Russell 3000 Growth index growing only 0.34% over the same period.

International stocks also made gains in March with the benchmark MSCI EAFE Index rising 2.47% on a local currency basis and 6.02% when translated into dollars as the dollar weakened against a trade weighted basket of currencies. In Europe, the dollar weakened against the euro, which was unexpected since the European Central Bank (ECB) met at the beginning of the month and announced additional monetary policy easing, to combat low inflation. These measures included the ECB increasing its asset purchases program from €60 billion to €80 billion a month, expanding the universe of assets that the ECB can make purchases from, and lowering the ECB deposit rate to -0.4% from -0.3%. The muted effect of these actions have caused analysts to speculate on the limits of additional monetary policy action at this point. In Japan, the Nikkei rose 4.57% in February on a local currency basis. After unveiling negative deposit rates at its previous meeting, the Bank of Japan (BOJ) elected to leave rates unchanged when they met in March. Despite the market's underwhelming reaction from the market at the

ECB's actions, the head of the Bank of Japan indicated during a parliamentary session that the bank had room to expand its aggressive monetary easing if need be, saying there was no "quantitative limit" to its actions. Emerging market stocks also had a strong month in March with the benchmark MSCI Emerging Markets Index growing by 13.03%. The emerging markets index is the only foreign index we track with positive returns year-to-date with a 5.37% rise on a local currency basis.

Fixed income returns were mostly positive this month with credit sensitive sectors outperforming interest rate sensitive ones. The benchmark Barclays Aggregate Bond index rose by 0.92% for the month, bringing its year-to-date return to 3.03%, and the 10-year Treasury yield ended the month by edging up slightly from 1.74% to 1.79%. High yield was the top performing sector in March, with the Barclays US High Yield index rising 4.44%, and for the year the index is up 3.35%. On the other end of the fixed income spectrum, long maturity treasury notes, which are most sensitive to interest rate changes, were flat this month when measured by the Barclays Long Term U.S. Treasury index. However, it is still one of best performing sectors for the year with the index rising 8.15% in that time period.

After months of consistently declining prices, commodities rebounded slightly in March with the benchmark Reuters/Jefferies CRB index gaining 4.48% in March, and for the year it is down 3.19%. Rising oil prices helped buoy the index as WTI Crude oil moved from $32.74 at the beginning of the month to $38.34 at the end. The best performing commodity for the quarter were lean hog spot prices, which rose 35.20% due to demand outstripping supply. Gold prices inched up 0.17% to $1,237 per ounce, and the VIX index, which measures volatility, declined from 20.55 at the start of the month to 13.95 at the end.

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INDEX	DESCRIPTION
10 Year Treasury	The closing yield on 10-year Treasury notes calculated on a daily basis. Data sourced from the Federal Reserve.
Barclays Capital Aggregate Bond Index	A broad based index used to represent performance of investment grade bonds traded in the United States. The index includes Treasury securities, government related and corporate securities, mortgage-backed securities and asset-backed securities.
Barclays Municipal Bond Index	An unmanaged index considered representative of the tax-exempt bond market.
BofAML Masters II High Yield Index	An unmanaged index tracks the performance of below investment grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.
Conference Board Consumer Confidence	An indicator used to measure consumer confidence in the economy produced by the Conference Board on a monthly basis based upon a survey of 5,000 households.
DAX (Germany)	A total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange.
Dow Jones Industrial Average	An unmanaged index of 30 widely held securities.
Federal Funds Rate	Targeted interest rate at which depository institutions lend to each other overnight. The rate is targeted by the Federal Open Market Committee (FOMC).
FTSE (UK)	A capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange.
FTSE NAREIT All REITs Index	Market capitalization weighted index that includes all tax-qualified REITs listed on the New York Stock Exchange.
GDP	A measure of broad economic output in the United States produced by the US Bureau of Economic Analysis on a quarterly basis with revisions made monthly.
Gold	Value of gold based upon the afternoon fix (15:00 GMT) in London each afternoon.
ISM	A measure of manufacturing activity reported by the Institute of Supply Management each month. A reading over 50 signifies growth in manufacturing during the month.

MSCI EAFE	A widely accepted benchmark of foreign stocks. It comprises 21 MSCI country indices, representing the developed markets outside North America: Europe, Australasia and the Far East.
MSCI Emerging Markets	A widely accepted benchmark of emerging markets stocks. It is a float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets.
NASDAQ	An unmanaged index of all stocks traded on the NASDAQ over-the-counter market.
Nikkei (Japan)	An unmanaged price-weighted index of 225 widely held stocks listed in Japan.
Oil	Closing value of light, sweet crude oil futures in the near month.
Retail Sales	A measure of retail sales compiled monthly by the US Department of Commerce
Russell 2000	An unmanaged index of small cap securities.
S & P 500	An unmanaged index of 500 widely held stocks.
Shanghai Composite	Index of all listed (A and B share class) stocks traded on the Shanghai Stock Exchange.
Thomson-Reuters Jefferies CRB Index	A widely accepted benchmark of commodity prices. The index is designed to provide a representation of long-only broadly diversified investment in commodities.
Unemployment	A measure of unemployment compiled monthly by the US Bureau of Labor Statistics.
VIX Index	Measure of market expectations of near-term volatility based on S&P 500 stock option prices.