

Investment Commentary Q2 2016

The global equity and bond markets recovered during the second quarter of 2016 as central banks across the world sent signals that short-term interest rates will remain low for the foreseeable future. U.S. Large Cap, Mid Cap, and Small Cap stocks all grew 3% during the second quarter. For the first six months of 2016, Large, Mid, and Small Cap stocks grew 4%, 5%, and 2% respectively and investors' preference was to own dividend-paying companies. Value stocks, which are companies that have stable revenue streams and pay shareholders higher regular dividends, have outpaced Growth stocks in 2016 by an average of 5% due to higher investor demand for stock dividends in a low interest rate environment. International-Developed stocks fell over 1% during the quarter and over 4% for the first six months of 2016 due to continued angst over the political and economic environment in the United Kingdom after the Brexit vote. Emerging Market stocks grew over 5% during the quarter and over 10% during the first six months of 2016 as Asian economies stabilized during the quarter. U.S. long-term government and corporate bonds rose over 5% during the quarter and over 14% since January 1st as bond prices rose in response to the Federal Reserve's lower interest rate outlook.

Despite significant efforts by the U.S. Federal Reserve for the past eight years to boost the U.S. economy, manufacturing, housing, and wages continue to grow less than historical averages. Manufacturing orders and shipments fell 3% and 2% respectively during the second quarter as factories felt the impact of a stronger U.S. dollar and economic weakness in Europe and Asia. The U.S. economy has lost almost a third of manufacturing jobs since 2000 as products such as textiles are now produced in China. The overall U.S. unemployment rate fell to 4.9% during the quarter but the participation rate remains below 63%, the lowest level in decades. U.S. wages grew only 2.4% when compared to the same period in 2015. The lack of significant wage growth has led to lower homeownership in the U.S., despite lower borrowing costs. Homeownership in the U.S. fell to 62.9% in June, the lowest level since 1965 as fewer young consumers are participating in the housing market.

The Brexit vote created unprecedented uncertainty in Europe as Great Britain officially began the process of exiting the European Union after 40 years of membership. The decision to leave the European Union created uncertainty in the areas of labor, business, politics, and currency. Britain's Recruitment and Employment Confederation reported that their monthly survey in June showed the slowest permanent job hiring in the U.K. since 2009 as many companies struggle to forecast the future business environment. Another key consequence of the Brexit decision is the migration of wealthy investors into Europe. There may be fewer individuals applying for a "golden visa," document that will allow a wealthy individual to invest and live within the European Union ("EU") because of the uncertainty as to whether EU citizens will be allowed to travel and work freely in the U.K. Due to economic weakness and uncertainty, the British pound fell over 15% against the U.S. dollar from June 30, 2015 to June 30, 2016. Analysts and investors are eagerly anticipating clarity from the EU and the U.K. regarding their future relationship post-Brexit.

As we move into the second half of 2016, we remain cautious of the international equity markets. We lowered our International Developed-Market equity positions and increased our U.S. Low Volatility positions. We also increased our Large Cap Value positions to provide clients with additional dividend income opportunities. We continue to focus on providing our clients with an active investment management process that utilizes lower-cost fund managers that provide consistent investment performance while mitigating risk.

As always, we welcome your thoughts and concerns. Please contact your DNB First Wealth Management Advisor to discuss your portfolio in further detail.