July 2016

Market Index	July Change	Year-to-Date
Standard & Poor's 500	3.7%	7.7%
Dow Jones Industrial Average	2.9%	7.4%
NASDAQ	6.7%	3.9%
Russell 2000 (small company)	6.0%	8.3%
MSCI EAFE (international)	5.1%	0.8%
Barclays Aggregate Bond Index	0.6%	6.0%

Monthly Update

Brexit Fears Dissipate, Stocks Post Strong Returns

Britain's vote to leave the European Union shocked the world in late June, but the stock market declines that resulted were short-lived. Stocks rebounded around the world as investors judged the initial response to the vote to be an overreaction. The S&P 500 Index and the Dow Jones Industrial Average both hit several new records. European markets also rebounded. Confidence in the U.K. and Europe is down sharply, a probable sign of economic malaise to come. But for now those stock markets seem to have absorbed at least the initial impact of Brexit. International stocks were hit harder in the wake of Brexit, so in general they experienced a stronger bounce in July. In the U.S., small cap stocks outperformed large cap, and technology stocks had a great month, gaining almost 8%. Bonds gained some ground and have posted strong total returns in 2016.

Treasury Rates Hit Record Lows

The fear sparked by Brexit pushed interest rates down even further. Economic data, currency movements, and central bank activity added to the downward pressure, both in the U.S. and overseas. Incredibly, roughly one-third of developed country government bonds now trade at negative yields, representing approximately $11 trillion worth of debt. These astounding figures are evidence of the efforts of central banks to stimulate a weak global economy. In addition to low-interest-rate policies, central banks are also involved in quantitative easing, which has now become commonplace. In Japan and Europe, some are even advocating the implementation of "helicopter money." This term was popularized by former Fed chairman Ben Bernanke and refers to an aggressive method of stimulus in which the central bank "drops money from the sky." More specifically, central banks would directly provide the government with money that the government could spend on infrastructure or use to fill the budget gap resulting from tax cuts. A potential shift is on the horizon in the U.S., however, as the Fed is expected to begin to tighten policy. The Fed has indicated it might raise rates in 2016, but the market places a low probability on that occurring. Still, it's clear that the U.S. economy is in better shape than much of the rest of the world.

U.S. Economy Improving, but Skepticism Remains

The preliminary 2nd quarter GDP number was a weak 1.2%, but economists generally expect U.S. GDP growth to remain in the 2-3% range. Meanwhile, GDP growth remains close to zero in both Europe and Japan. The U.S. has benefitted from ultra-low interest rates, which have boosted consumer spending and housing markets. Energy prices have remained lower,

Monthly Update (continued)

and wages have continued to rise along with household net worth. The economy is nearing full employment, and record-highs in the stock market have also boosted confidence.

Despite these positives, international (and some domestic) developments have instilled some doubts. Weak growth abroad, the Brexit vote, elections in various countries, populist backlash against globalization and trade, terrorism, a strong dollar, high debt levels, and the prospect of Fed tightening have all contributed to these doubts.

Presidential Candidates Confirmed

The two major political parties' candidates have been officially confirmed, but the twists and turns of this bizarre campaign continue. Uncertainty stemming from this election season will keep poll numbers gyrating as observers speculate about the outcome. In the coming months, voters will evaluate the proposals of each candidate. And just like every campaign season, such proposals will be taken with more than a grain of salt. We are often asked about the impact of the election on the markets. Election season always stirs up fears, doubts, uncertainty, and hopes in the minds of the people, leading many to wonder how it will affect their investments. Politics can influence the markets in the short run, but in the long run the economy and corporate earnings are what drive returns. One of the strengths of the American system is the limits that have been placed on government power. These checks and balances have allowed our economy to operate with much more autonomy than most others around the world and throughout history. In addition, markets have often benefited from periods of "divided government" when one party controls the White House and the other controls Congress. There is heated debate about whether the government should be more involved or less involved than it is now, but the fact remains that this system has allowed for incredible economic progress for more than two centuries.

Investing Amid Global Turmoil

Every day seemingly brings news of terrorism, violence, military coups, and war. The human suffering around the world is tragic and heartbreaking to watch. Understandably, these events are unsettling for many of us. The significance of these tragedies is much greater than the effect on the financial markets. That being said, the discouraging news that we see on a daily basis can cause some to take an overly pessimistic view when it comes to investing. But just as with election season, successful investing requires a focus on what ultimately drives returns over the long run. Sadly, violence and turmoil of this kind is nothing new, and these events are a reality that investors will confront long into the future. So while we hope for better days, it is critical to stay focused on the disciplines that have led to investing success over time, amid all kinds of turmoil.

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