MURRAY
INVESTMENT MANAGEMENT

1st Quarter 2016 Update

Economic Review

The U.S. economy continued to plod along during the 1st quarter in spite of continuing fears of a global economic slowdown (led by China) and a volatile energy space. GDP growth expectations for 1Q16 are around 1.5%.

The U.S. Federal Reserve left rates unchanged (.25%-.50%) during the quarter and signaled that they intend to raise rates only 2 times in 2016 instead of 4. Global growth concerns and low inflation likely led the Fed to reduce the tightening pace.

The employment situation continued to improve with an average of 209,000 new jobs created each month during the quarter while the unemployment rate remained stable at 5%. Overall, job creation has been strong for the last several years and has significantly contributed to the growth of the economy.

Equity Market Performance

	QTD	YTD
S&P 500	1.35%	1.35%
MSCI EAFE (International index net return)	-3.01%	-3.01%
Russell 2000 (small cap)	-1.52%	-1.52%

The broad U.S. equity markets were volatile during the 1st quarter, but large cap stocks rallied to finish in positive territory after a significant selloff during the first part of the year. Concerns about a slowing global economy weighed on equity markets, but markets generally improved on better economic news, some stability in the energy space and clarity that the Fed would be patient with raising rates. Broad international markets were down while emerging markets posted solid results.

Bond Market Performance

	QTD	YTD
Barclays US Aggregate Bond (Broad Bond Market)	3.03%	3.03%
Barclays Municipal	1.67%	1.67%
Barclays US Treasury Long	8.15%	8.15%
Barclays US Corporate	3.97%	3.97%
Barclays US Corporate High Yield	3.35%	3.35%

In the face of volatile equity markets, the 10 year Treasury rate fell from 2.27% to 1.78% during the quarter as investors flocked to the safety found in this asset class. Long Treasuries performed particularly well in this environment, and the broad aggregate index was up 3.03%.

Economic Outlook

The U.S. economy is expected to grow modestly for the rest of the year (no recession expected) driven by continued employment gains and strong consumer spending. Given the modest growth expectations, however, there is concern that slowing growth overseas could spill over to the U.S. and cause a recession. In light of this, investors should expect heightened focus and discussion on international economic performance given the global nature of our economy.

In this environment, the Federal Reserve will likely be more patient before raising interest rates this year. As the Fed embraces its dual mandate (maximum employment and price stability), it will have to decide when to (1) raise rates to keep inflation in check while (2) not raising rates too soon and choking off the expansion. Employment, inflation and global growth expectations will weigh heavily on the Fed's decisions going forward.

Market Outlook

Equity markets will likely be volatile through the year as risk-on / risk-off trades swing money in and out of equity markets based upon when the Fed will raise rates, economic growth and earnings expectations. A longer term approach could serve investors well in the face of such potential price swings.

Equity markets are currently facing some headwinds which include a weak energy space, uncertain growth overseas and slowing corporate earnings. Conversely, stronger consumer spending should help the economy grow and contribute to corporate earnings which could drive markets higher. With these crosscurrents in mind, it would not be surprising to see modest investment returns throughout the rest of the year.

Interest rates remain at historically low levels and provide a very challenging environment for fixed income investors. Expectations are for modest increases in rates and for the U.S. to remain in a lower for longer rate environment. As such, the fixed income space is not particularly attractive with shorter maturities serving as a reasonable way to maintain exposure to the space.

Murray Investment Management

If you would like help with establishing an investment plan or would like to schedule a portfolio review, please give us a call. Also, please pass along our name to anyone that may be in need of investment advice.

Source: bls.gov, federalrserve.gov, frbatlanta.org, Morningstar, bea.gov, Bloomberg, The Wall Street Journal and treasury.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 03/31/2016. Except as noted, index returns are total returns.