

## 2<sup>nd</sup> Quarter 2016 Update

### *Economic Review*

The U.S. economy continued to grow modestly during the 2<sup>nd</sup> quarter while the employment situation somewhat weakened. The unemployment rate fell to 4.9%, but job growth slowed during the quarter.

The Federal Reserve has not raised rates this year, and mixed economic results led to lower expectations for rate increases during 2016. Rates remain at historically low levels.

The United Kingdom's decision to leave ("Brexit") the European Union was the most significant event during the quarter. The vote to leave cast a cloud of uncertainty over the global economy given the complexities associated with the exit.

### *Equity Market Performance*

	QTD	YTD
S&P 500	2.46%	3.84%
MSCI EAFE (International index net return)	-1.46%	-4.42%
Russell 2000 (small cap)	3.79%	2.22%

Broad large cap U.S. equity markets were volatile during the quarter but produced a solid 2.46% return and are up 3.84% for the year. High dividend paying stocks have produced solid returns as investors have sought out higher yielding equity securities in the face of historically low interest rates. The small cap space was up for the quarter and for the year.

The Brexit vote weighed on International markets during the quarter, and broad International markets are down over (4%) this year. It is worth noting that for the last 3 and 5 year periods, the International space has significantly underperformed relative to the S&P 500. For portfolios that are diversified geographically (domestic and international exposure) this performance disparity has had a significant impact. These trends, however, do not typically go on indefinitely and have a tendency to mean revert over time. In other words, the S&P 500 will not necessarily be the better performer going forward.

### *Bond Market Performance*

	QTD	YTD
Barclays US Aggregate Bond (Broad Bond Market)	2.21%	5.31%
Barclays Municipal	2.61%	4.33%
Barclays US Treasury Long	6.44%	15.12%
Barclays US Corporate	3.57%	7.68%
Barclays US Corporate High Yield	5.52%	9.06%

The broad U.S. bond market was up for the quarter as yields fell in the face of volatile equity markets. Long Treasuries were particularly strong as they attracted capital when equity markets were under pressure.

### *Economic Outlook*

The impact that the Brexit vote will have on the U.K. and global economies is uncertain, and there is a concern that the vote could lead to further de globalization, a strengthening U.S. dollar and slower global GDP growth. This uncertainty along with mixed economic data has not painted a particularly compelling picture for global GDP growth expectations.

On the other hand, this economic uncertainty has led many to believe that the U.S. Fed and other central banks will remain accommodative for longer than was previously expected with the Fed on hold from raising rates until possibly 2017. These accommodative policies should provide stimulus to help the U.S. and global economies continue to grow.

Taken all together, investors should expect modest U.S. and global GDP growth for the remainder of the year and into 2017. The Fed, jobs data and the U.S. dollar will be good indicators to watch to discern the path that the economy takes.

### *Market Outlook*

Domestic and international equity market will likely be volatile for the remainder of the year. It would not be surprising to see some sort of market correction in the next 12 months or so, but equity markets have the potential to keep grinding higher if GDP growth and corporate earnings improve. For most clients, we would generally view any sort of market correction as a potential opportunity to increase equity exposure.

As yields remain very low, it is hard to get excited about the fixed income space which generally has an unfavorable risk/reward profile. It seems that a cautious approach in this space is a wise move in the current environment.

### *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, Morningstar, 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 06/30/2016. Except as noted, index returns are total returns.