Not Straight, But Certainly Narrow

When charting market performance, we rarely observe equities trading in a straight line. This is also true for the S&P 500 – the most widely used broad measure of U.S. equity performance. Imagine a price chart representing the S&P 500 performance up over 250% since its March 9, 2009 low (676.53) – the start of the current bull market – to the present near all-time high of 2,181.74. This growth is impressive and may offer a sense of steady improvement, but memories quickly fade that there was much angst and volatility in the markets between then and now. Yet recently, stocks have traded in narrow range. Despite the S&P 500 ending July within two points of its then all-time high, the last 11 trading days of last month finished without a move of more than 0.5%, the longest such period ever recorded. This relative calm has prevailed into early August.

With that background, let's look at the narrow range of recent market success. Going back to this year's low on February 11th, the S&P 500 has gained over 20%, including dividends. On a year-to-date (YTD) basis, when we account for the worst start to a year for stocks on the record books (when stocks subsequently plunged 10.3% to the February 11th low), the S&P 500 is up 8.2%. And underlying that return, we see segments of the market that are this year's biggest success stories and others that are not performing well at all.

On a YTD sector basis, Telecom (+23.6%), Utilities (+19.3%), and Energy (+15.2%) are registering stellar 2016 performances, while Consumer Discretionary (+4.9%), Healthcare (+4.5%), and Financials (+2%) have trailed and contributed less to the overall S&P 500 performance.

Globally, thanks in large part to improved valuation metrics and accommodative policy from central banks, emerging market stocks, as measured by the MSCI Emerging Markets Index, have widely outperformed U.S. stocks, returning 14.7% so far this year. In contrast, developed markets, excluding the U.S. and Canada, as measured by the MSCI EAFE Index, have declined 0.4%.

We also see stark YTD performance differences within bonds. Interest rates have been on a declining path, driving the Barclays U.S. Long-Term Governments Index up 15.2% this year, while the broader measure of U.S. bond performance, the Barclays U.S. Aggregate Bond Index, is up just one-third as much (+5.4%). Within U.S. corporate bonds, the Barclays Investment Grade Bond Index has gained 8.6% YTD, while higher yielding non-investment grade bonds, as measured by the Barclays High Yield Bond Index have jumped 12.7%.

Among the four major asset classes, real estate (in the form of Real Estate Investment Trusts, or REITs) is by far the year's most outstanding success story. This asset class, as measured by the FTSE NAREIT Equity REITs Index has gained 15.6% YTD.

Lastly, while on an overall basis, the Bloomberg Commodities Index has risen 6.6% YTD, its most notable precious metals components have put most all aforementioned performances to relative shame. In the vernacular of the Olympics – Gold futures have come in second place, winning the Silver Medal with YTD return of 26.5% - while Silver futures has taken the Gold, surging nearly 44% YTD.

We believe this YTD review of narrowly segmented performance conveys the importance of being fully diversified among and within differing asset classes so as to reduce overall portfolio risk. This means having differing exposures within stocks by market capitalization (small, mid, and large-cap), sectors, as well as geographic regions. We also stress avoiding overconcentration in any one area or within a single stock. In bonds, spreading exposures among types of issuers, varying maturities, credit qualities, and durations (which measure sensitivity to interest-rate changes) is also encouraged. Diversification means that even if a portion of your portfolio is declining, other areas of the portfolio are hopefully growing and there is less chance to miss out if only few sectors outperform.

Performance figures as of 8/9/16 closing.

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Glossary

*The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.*
*The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.*

***MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.*

*The **Barclays U.S. Long Government Float Adjusted Bond Index** is a float adjusted version of the U.S. Government Bond Index, which tracks the market for U.S. dollar-denominated, fixed-rate, nominal U.S. Treasuries and U.S. agency debentures (securities issued by U.S. government owned or government sponsored entities, and debt explicitly guaranteed by the U.S. government). The (long) index uses the same eligibility criteria as the U.S. Government Index, but excludes U.S. agency debentures held in the Federal Reserve SOMA account. To be included in the U.S. Long Government Float Adjusted Index, securities must have at least ten years to final maturity. The Barclays float adjusted index family was launched in July 2009 with an inception date of July 1, 2009.*

*The **Barclays U.S. Aggregate Bond Index**, which used to be called the Lehman Aggregate Bond Index, is a broad base index, maintained by Barclays Capital, and is often used to represent investment grade bonds being traded in the U.S. Barclays Capital (BarCap) U.S. Aggregate Bond Index is made up of the Barclays Capital U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.*

*The **Barclays U.S. Corporate (Investment Grade) Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers. Launched in July 1973, securities included must be rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, S&P and Fitch; when a rating from only two agencies is available, the lower is used; when only one agency rates a bond, that rating is used.*

*The **Barclays U.S. Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.*

*The **FTSE NAREIT Equity REITs Index** contains all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other those designated as Timber REITs or Infrastructure REITs. A REIT is a company that owns, and in most cases, operates income-producing real estate such as apartments, shopping centers, offices, hotels and warehouses. A company that qualifies as a REIT is permitted to deduct dividends paid to its shareholders from its corporate taxable income. In return, taxes are paid by shareholders on the dividends received and any capital gains.*

*The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).*