MADISON PARK
CAPITAL ADVISORS

Weekly Market Update

July 5, 2016

Mixed signals

We hope you all had a wonderful 4th of July celebration…or you might say, a celebration of the 240th anniversary of a much more important "Brexit"! I saw reports in the Seattle Times today that fireworks accidents sent at least 18 people to the ER locally. Here's to hoping you weren't among this crowd, but instead were able to thoroughly enjoy celebrating and giving thanks for the freedom afforded to you in the good old US of A.

While this will be a short week in the markets thanks to the holiday, last week was full – both of days and of excitement. Equity markets rallied on the week, rebounding from a post-Brexit selloff Monday to recover much or even all of the prior week's losses in several major indexes. In the US, the S&P 500 ended the week up 3.3%, finishing the quarter with a 0.3% gain. In Europe, the EuroStoxx600 and the FTSE100 finished the week up 3.2% and 9.9%, respectively, in an apparent turnaround of investor confidence.

The comeback effort in the U.S. market is reminiscent of what unfolded after Standard & Poor's cut its 'AAA' rating for the U.S. in August 2011. In that case, the S&P 500 dropped 6.7% the day after that downgrade, but then made up the entirety of that loss and then some only a week later.

One glaring similarity between then and now is that the world's leading central banks are pledging to work to provide more policy support if necessary. Mark Carney, the Governor of the Bank of England (BoE), said that some monetary policy easing may be required over the summer, helping assuage investor Brexit fears, adding that "the result of the referendum is clear. Its full implications for the economy are not." Gold advanced 1.4% last week, nearing a two-year high, reflecting views that central banks will remain accommodative in the wake of the UK referendum.

The ISM manufacturing index rose to 53.2 in June, its highest reading in the more than a year, easily beating the consensus expected level of 51.3. (Levels higher than 50 signal expansion; levels below 50 signal contraction.) This was the fourth consecutive month of expansion for the manufacturing sector. The two most forward looking measures, new orders and production, both showed accelerating growth in June, and both stand comfortably above 50. And growth isn't limited to a few select industries; thirteen of eighteen industries

reported growth in new orders, while only three reported declines. Production tells a similar tale, with twelve of eighteen industries reporting growth.

US Consumer Confidence surged in the month of June, beating consensus estimates by nearly five points to come in at 98.0. The Case-Shiller Home Price Index reported an April rise of 0.5%, with prices increasing on a seasonally adjusted basis in most cities (with Seattle amongst the leaders yet again). The year-over-year rate remained at +5.4%.

This combination of potential additional stimulus, strong consumer confidence, and the highest ISM manufacturing reading since February 2015 has apparently left investors more sanguine that the global economy can avoid recession.

At the same time, we look at the treasury markets and wonder if they are telling us the same. 10-year Treasury note yields have fallen to near all-time record lows set in 2012 as markets digest the impact of Brexit on the global economy. Futures, according to Bloomberg, are now pricing in a greater than 50% chance that the Federal Reserve will leave rates unchanged until December of 2017. These are not exactly signs of investor confidence that the global economy is sitting on a firm foundation.

You might think from the title that this was going to be an essay on the middle-school dating scene...but alas, it is instead an honest title for what we are seeing in the markets. So what do we do in the midst of this dichotomy? If you are a client of MPCA, you may have noticed a number of trades in your account over the past few days. Our indicators are pointing us away from equities (US and international), and instead into alternative investments that tend be non-correlating to the equity markets. This is on top of a continued overweight position in fixed income. We do not have a crystal ball, nor do we try to tell the markets what to do. Instead, we trust our indicators – and these are telling us to continue in a defensive posture for the time being. As always, we invite your comments, questions, concerns – and yes, your referrals. Please reach out to us at any time.

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