You Have Not Seen the Last Selloff and Relief Rally

Early this year, U.S. equities suffered major losses as investors focused on a long list of worries. Now just a couple months later, U.S. stocks are much higher as most of those worries proved to be short-lived. Significant market gyrations are likely to continue as investors balance their concerns with optimism. More importantly, as we head into the seventh year of this current bull market, it is imperative to safeguard portfolios against periods of elevated volatility.

As 2016 began, the sharp market selloff caused investors to worry about another 2008-style financial crisis. While the long list of worries was significant, the ensuing relief rally suggested that those worries may have been a bit overdone. Here are some of the worries that initially concerned investors and what led markets to a relief rally:

- ***China*** – The combination of a sharp selloff in its stock market, signs of weakening economic growth, and a lower Yuan made investors nervous about the world's second largest economy. The rebound in manufacturing, non-manufacturing, housing construction, and retail sales indices have helped to alleviate some concerns about the China growth story.
- ***Oil Prices*** – The consequences of a sharp drop in energy prices, including lower corporate earnings, weaker capital spending, and possible debt servicing issues, nerved investors. The price of crude oil has dramatically rebounded since hitting multi-year lows earlier this year, while defaults for energy companies have not been as dire as some predicted.
- ***The Hawkish Fed*** – Concerns about the so-called Fed dot plot forecast, which suggested that the Fed would raise rates four times in 2016, became less relevant as many Fed members turned more dovish (less likely to raise interest rates).
- ***Emerging Markets*** – A big fear was that developing nations companies that had borrowed in dollars would have a difficult time to make payments on this debt in a stronger dollar environment. However, according to recent data from Bank of America Merrill Lynch, default rates on emerging market bonds have fallen to just 3%. As a point of comparison, defaults for U.S. high yield bonds are at 4.6%. Furthermore, emerging markets equity asset class, as measured by the MSCI Emerging Markets Index, is one of the best performers so far this year.
- ***U.S. Recession*** – Early this year, concerns about an imminent recession was at the forefront of investors' minds. With some better than expected readings on the economy, the likelihood of an impending recession has diminished.

When the year began, investors were concerned that the financial markets were headed for another 2008-style selloff. By mid-February, this anxiety sent U.S. equity indices to two-year lows. However, just a couple months later, more news and a change in global events, have helped lead U.S. stocks higher. With many market headwinds and tailwinds that we outlined in our recent market outlooks likely to impact investing this year, the January/February selloff is likely not the last one that we will see this year. With market valuations frothy, corporate earnings likely to be down for another quarter, the global economy showing mixed results, concerns about Brexit and the U.S. Presidential election, we anticipate more market swings this year. Positives such as low interest rates and accommodative central banks should limit any significant market loss. Looking forward, we continue to suggest broad diversification, more conservative positioning, more flexible investment approaches, and an allocation to alternative investments with lower correlations to traditional asset classes to help protect portfolios from sizable fluctuations.

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While diversification may help reduce volatility and risk, it does not guarantee future performance.

Investors should consider the investment objectives, risks and charges, and expenses of the fund carefully before investing. The prospectus contains this and other important information about the fund. Contact your registered representative or the issuing company to obtain a prospectus, which should be read carefully before investing or sending money.

*The **MSCI EM (Emerging Markets) Europe, Middle East and Africa Index** is a free float adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East & Africa.*

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