DFM
DIVERSIFIED FINANCIAL MANAGEMENT

80 Washington Street • Building E-13 • Norwell, MA 02061
781-792-0440 • Fax 781-792-0606
dfm@dfmwealth.com

INVESTMENT SUMMARY

2nd Quarter 2016

Solid second quarter returns for the major stock and bond benchmarks were overlooked by both media and investors alike, as attention was diverted to Britain's referendum and tumultuous decision to exit the European Union. Even with the drop in markets on the morning of the "Brexit" announcement, the S&P 500 finds itself up close to 4% halfway through the year, with the major bond index registering a gain of over 5%. These are surprisingly strong results and another feather in the cap of what has been a durable seven-year bull market.

As in previous years, 2016 is replicating the familiar U.S. pattern of an economy that gathers momentum over the course of the calendar year. In the most recently completed quarter, GDP growth is expected to register at a healthy 2.5% clip, bolstered by a healing oil market and strong employment. Despite the apparent strength in the broader economy, corporate earnings being reported in the weeks ahead are expected to suffer their fourth quarterly decline in a row. The primary reason for falling business profits has been the strong dollar, which hurts the competitiveness of U.S. companies selling overseas. A second drag on corporate earnings has been the challenges faced by the North American oil and gas industry. Thankfully, for these companies, oil prices have recovered a great deal in 2016 (rising to around $50 per barrel), which paves the way for better results in this segment of the economy.

A prescription of low (or negative) interest rates around the world, administered by the Federal Reserve and their fellow international Central Bankers, has played a major role in propelling economic activity, re-inflating real estate prices, and pushing stock prices to all-time highs. With this business cycle now mature by most measures, Chair Janet Yellen has indicated the Fed's intentions to normalize (increase) interest rates in the months ahead. We are fairly certain she will be deliberate in her tightening monetary policy, as the Fed has become hyper-sensitive to disrupting both the economic expansion and upward trending financial markets. Now, with the divisive U.S. Presidential elections intensifying and promising spirited debate of trade policy, income equality, and government regulation, the Fed has yet another reason to leave interest rates lower for a while longer.