

INVESTMENT SUMMARY

3rd Quarter 2016

Financial markets pushed higher in the third quarter, sustaining or establishing new all-time highs along the way. In the U.S., stocks continue to find support from an economy that is neither too hot or too cold. For example, first half of the year GDP growth hovered around 1%, which is sluggish by historical standards. Corporate profits have also plateaued, with reported earnings showing several consecutive quarters of flat to limited growth since 2014. On the bright side, U.S. consumers, responsible for about 70% of economic activity, continued to find support from an improving job market, strong trends in real estate, and increasing wages.

These healthy investment results are notable, given the uncertainty inherent in the upcoming U.S. presidential election, as well as the prospects for higher interest rate policy on the part of the Federal Reserve. As in prior years, this historic bull market has again demonstrated its durability and breadth, with all eleven sectors of the S&P 500 delivering positive returns in 2016.

The most important political developments in the third quarter occurred beyond our borders, with England's unexpected vote in June to leave the European Union (EU). Time will tell what the ultimate economic and social impacts to England will be from this decision. While their stock and bond markets have held up fairly well, England has suffered a traumatic 27% decline in its currency, which impacts all local constituents. More recently, British Prime Minister Theresa May has formally triggered the "Brexit" process, which is sure to become a contentious negotiation between the camps. Prime Minister May's rigid position on limiting immigration will certainly be a point of contention in these conversations, as other European political leaders continue to struggle with the influx of refugees from Syria and other Middle Eastern countries.