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October 7, 2016

### **Rising tide lifts both global and domestic securities**

Summer ended on a positive note for both domestic and international equities. Emerging markets and U.S. small caps dominated the returns for September, as well as for the third quarter. When the stock market is doing well, smaller companies generally offer more upside potential due to the increased risk of holding them, and that is exactly what we have seen since early this year, according to Andrew Adams, CMT, Senior Research Associate for Raymond James, although all three major indices ended the quarter solidly in positive territory, with the NASDAQ climbing close to double digits.

The Federal Open Market Committee was split in September, but most committee members voted against raising short-term interest rates. Fed officials remain in tightening mode, expecting to resume monetary policy normalization at some point, and they can afford waiting for more information on the strength of the economy. Future policy action will depend on the amount of slack in the job market and the outlook for inflation.

A quarter-point increase will likely cause the equity markets to stutter, but the overall impact on the economy should be minimal, according to Chief Investment Strategist Jeff Saut, who believes “any pullbacks are for buying.”

	9/30/16 Close	6/30/16 Close	Change	Gain/Loss
<b>DJIA</b>	18,308.15	17,929.99	+378.16	+2.11%
<b>NASDAQ</b>	5,312.00	4,842.67	+469.33	+9.69%
<b>S&amp;P 500</b>	2,168.27	2,098.86	+69.41	+3.31%
<b>MSCI EAFE</b>	1,701.69	1,608.45	+93.24	+5.80%
Performance reflects price returns as of market close on Sept. 30, 2016.				

Below are additional thoughts on the factors that are influencing the domestic and global markets.

#### **Economy**

- Consumer and housing fundamentals remain strong. Job growth has remained strong, wage growth is moderate, and gasoline prices are expected to remain relatively low, according to Brown.
- Economic data are inherently noisy; and with a slower trend rate of economic growth, driven largely by slower population growth, the figures are likely to send mixed messages.
- Inflation-adjusted median household income rose 5.2% between 2014 and 2015; the largest gain in nearly 50 years, but remains below the pre-recession level.

#### **Equity markets**

- The broad market S&P 500 rallied immediately after the Fed decided not to raise rates in its September meeting, and while the index gave back much of the gain, it may be inching its way toward its all-time high.
- Saut believes the long-term secular bull market remains in force.
- Election and global concerns remain in place, particularly the anticipated aftermath of Brexit negotiations and China’s economic and credit woes.

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**Fixed income**

- As many anticipated, bond markets experienced increased volatility in September, resulting in higher interest rates across the entire fixed income universe.
- Fixed Income Strategist Benjamin Streed attributed the abrupt selloff to two main factors: U.S. economic data surprised to the upside, and global bond investors were generally disappointed when foreign central banks (e.g., European Central Bank and Bank of Japan) did not announce additional monetary stimulus.
- Markets rebounded quickly after the Federal Reserve chose to leave interest rates unchanged.
- Throughout September, credit spreads (a measure of credit risk) remained relatively unchanged as the volatility was contained to Treasury/government rates.

**Global**

- Talk about the United Kingdom's intended exit from the European Union continues but with no concrete news or progress.
- This uncertainty appears likely to continue into 2017, according to Chris Bailey, European strategist for Raymond James, and therefore underpins a rising expectation that both the Bank of England and the European Central Bank will undertake more policy stimulus over the next six months.

**Bottom line**

- The U.S. economy is expected to grow moderately for the fourth quarter, but a soft global economy and election uncertainty will act as headwinds.

As always, we will continue to monitor the economy and the markets, and share the most relevant information with you. In the meantime, please feel free to call me if you have any questions or want to schedule a year-end review of your financial plan. I look forward to speaking with you.

Thank you for your trust in me.

Sincerely,



Carl V. Cline, III  
Investment Management Consultant

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