

Market Update

September 30, 2016

The third calendar quarter of 2016 provided the best economic news and most robust market gains of the last 12 months. After three consecutive quarters with real growth in U.S. Gross Domestic Product (GDP) averaging just over 1%, this quarter looks like it will produce a gain of roughly 3%. Corporate profits declined in each quarter of 2016, whereas real GDP growth inched upward, and in this current quarter the earnings recession seems to have hit bottom.

Capital markets are supposed to function as estimators of future growth, and the returns from all equity indices we monitor indicate the outlook for profits going forward is improving. In the U.S., the S&P 500 was up 3.4% for the third calendar quarter, the Dow Jones Industrials index was up 2.1% and the NASDAQ composite was up 9.7%. NASDAQ's outsized gain was due to the strong performance of technology companies and smaller companies generally.

International Developed Markets were up 5.9% and Emerging Markets were up 9.0% for the third quarter. The ten year U.S. Treasury Note was up modestly in yield and closed the quarter at 1.60%. In commodity markets, oil closed the quarter at nearly the same level as at the beginning of the quarter. Gold prices declined more than 4%, an unusual occurrence amidst heightened volatility throughout the quarter for equity markets worldwide.

The third quarter also included the political conventions for both Republicans and Democrats. Both candidates, Republican businessman Donald Trump, and Democrat, former Senator and Secretary of State Hillary Clinton, are now actively engaged in whatever approach they think best to win the presidency. Capital markets appear to be relatively unfazed at this point, by all the sound and fury emanating from the campaigns. According to market consensus, regardless of which candidate is elected, very little is likely to change the outlook for investors.

This has already been a good year for investments and investors. We subscribe to the thought that the future will continue to brighten and we are invested to participate in that prospective outcome.

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