SIGNATURE INVESTMENT ADVISORS
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SIA

INSIGHTS

A QUARTERLY NEWSLETTER BRINGING YOU FINANCIAL INSIGHTS

2016 Q2 Insights: US Jobs, UK Brexit Dominate Capital Markets

SEIA'S INVESTMENT COMMITTEE

SEIA's Investment Committee meets frequently to discuss current market trends and potential investment managers. The Investment Committee is composed of SEIA's Senior Partners and Financial Advisors, all who hold a variety of advanced degrees and certifications, including Master of Science Degree in Financial Services, Certified Financial Planner™, Chartered Financial Analyst, Chartered Mutual Fund Counselor, Chartered Financial Consultant and Accredited Investment Fiduciary®.

INVESTMENT COMMITTEE MEMBERS	YEARS OF EXPERIENCE
Brian Holmes, MS, CFP®, CMFC, AIF® President, CEO	32
Mark Copeland, CFP®, AIF® Senior Partner	27
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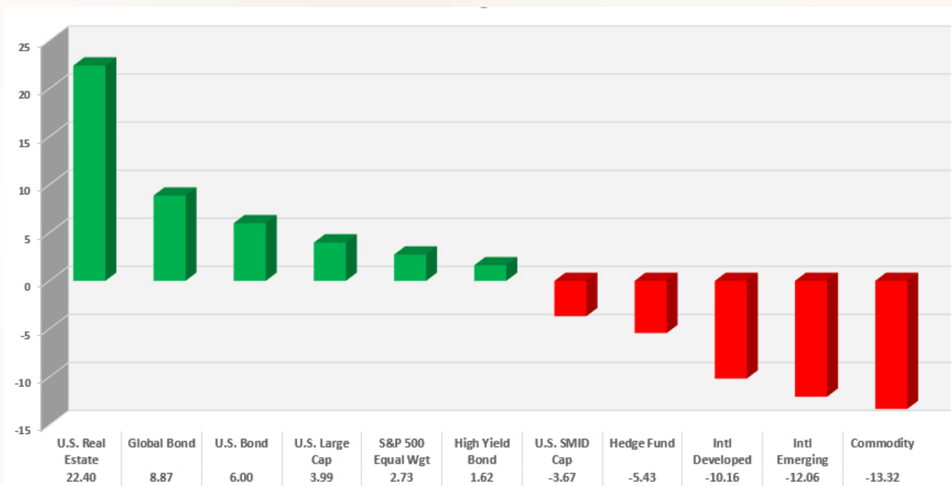
Thomas C. West, CLU, ChFC, AIF® Partner	22
Andrew Lin Strategic Development	12
Howard Chen, AIF®, CMFC Research Analyst	6
Derek Kellman Portfolio Manager	4

TRAILING 12 MONTH RETURN



Index	Index Name	Definition Indices include performance of capital gains as well as dividends reinvested.
U.S. Large Cap	S&P 500	Index based on 500 large US companies ranked by market capitalization (size).
S&P 500 Equal Weight	S&P 500 Equal Weighted	Index based on 500 large US companies ranked equally.
U.S. SMID Cap	Russell 2500	Index based on 2500 smaller US companies ranked by size (or, Russell 3000 which measures ##% of US market cap less the S&P 500 names).
ACWI	MSCI ACWI	Index consists of 46 country indexes comprised of 23 developed and 23 emerging market country indexes.
ACWI ex-US	MSCI ACWI Ex. USA	Index consists of 46 country indexes comprised of 22 developed (excluding the US) and 23 emerging market country indexes.
International Developed	MSCI EAFE	Index comprised of large and mid-cap stocks across Developed Markets around the world, excluding US and Canada.
International Emerging	MSCI EM	Index comprised of large and mid-cap stocks across 23 Emerging Market countries.
U.S. Bond	Barclays US Aggregate Bond	Index comprised of U.S. government and investment grade corporate bonds. 45% of index is government related.
High Yield Bond	Barclays US Corporate High Yield	Index comprised of U.S. non-investment grade corporate bonds.
Global Bond	Barclays Global Aggregate	Index is comprised of global investment grade bonds from twenty-four Developed and Emerging local currency markets.
Real Estate	MSCI US REIT	Index comprised of equity REITS including industrial, mortgage, office, residential, retail, specialized and diversified REITS.
Commodities	Bloomberg Commodity	Index tracks price of basket of commodities including energy, grains, industrial metals, precious metals, softs (sugar, coffee and cotton) and livestock.
Hedge Fund	DB Hedge Fund	Index tracks performance of equity hedge, market neutral, systematic macro, event driven, credit & convertible and global macro.

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What turned out to be a surprisingly historic quarter saw Global Equity end in positive territory (up 0.99%). Here stateside, U.S. Large Caps (the S&P 500®) ended Q2 at 2098—up 2.46% for the quarter and 3.84% for the first half of the year.

While these returns were modest and in-line with many analysts' projections of mid-to-high single digit full year returns, they were anything but dull. Similar to our theme from Q1, the 'boring' quarterly return masked a number of extraordinary events beneath the surface.

	NOTABLE SECTORS	Q2	TTM*
STOCKS	***GLOBAL EQUITY***	***0.99***	***-3.73***
	U.S. Large Cap (S&P 500)	*2.46*	*3.99*
	U.S. Small Cap (Russell 2000)	*3.79*	*-6.73*
	International Developed Markets	*-1.46*	*-10.16*
	International Emerging Markets	*0.66*	*-12.06*
BONDS	***GLOBAL BONDS***	***2.89***	***8.87***
	U.S. Aggregate (High Quality)	*2.21*	*6.00*
	U.S. High Yield (Low Quality)	*5.52*	*1.62*
	International Aggregate	*3.40*	*11.24*
	Emerging Market Debt (USD)	*4.67*	*7.83*
ALTS	*Gold*	*6.88*	*12.70*
	Commodities	*12.78*	*-13.32*
	Master Limited Partnerships	*19.70*	*-13.11*
	Real Estate	*6.89*	*24.10*
CASH	*Inflation*	*-0.14*	*-0.35*
	Cash (3-month T-bills)	*0.05*	*0.14*
	U.S. Dollar Index	*1.74*	*0.35*

**Trailing Twelve Months*

Last quarter we wrote, "*To many investors, the first quarter of 2016 felt like an entire year if not an entire business cycle*" as markets lost 10% only to recoup the losses within the 3-month period. While not as extreme percentage-wise, time-wise Q2 gave investors more than enough angst. In the last week of the quarter, global markets hit an air pocket following the 'Brexit' referendum, losing 6% over two days only to recoup the bulk of those losses over the ensuing three days—an approximate 10% market move all contained within 5 trading days!

Although Brexit (coined as a shorthand for British Exit from the European Union and derived from the original 'Grexit' crisis four years ago when Greece was at similar risk) along with the resulting volatility over the final week of June will dominate Q2 headlines, significant developments earlier in the quarter are worth noting due to their impact upon the investment landscape in the months and quarters to come.

In April, Commodities posted their best month since 2010 with Crude Oil climbing from $38 to $46 (+20%). Master Limited Partnerships also benefitted, gaining 10% in the month. The rise in oil prices relieved some pressure on smaller, distressed energy companies. Typically, these drillers not only make more money from higher oil prices, the resulting Balance Sheet improvement relieves some of the pressure in the high yield bond market where many of these firms gain access to

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debt. All-in-all, large defaults may have been avoided and jobs may have been preserved which helps (at the margins) to keep this extended business cycle in expansion territory.

In May and early June, the presidential primaries came to a close with both Trump and Clinton claiming victories. While still early, we will continue to analyze the presidential election (along with the upcoming conventions) as anything can happen in this election! Heading into November and beyond, varying sectors/industries will likely face either headwinds or tailwinds depending on both preliminary polling as well as the ultimate outcome. If anything, last week's events across the pond are a great reminder that politics can dramatically impact investment positioning.

The last week of June may have been historic, but for market participants the first week of June was just as important. Back in May, there was a greater than 50% probability of an interest rate hike at the upcoming July Federal Reserve (Fed) meeting. But on June 3rd, a meager jobs report altered the landscape and ratcheted down the economic outlook. Believing the Fed would awaken to the weak economic reality and delay a rate hike (see "The Fed Awakens from Q1), investors rushed into bonds. The yield on the 10-year Treasury bond dropped 23 basis points (1.81% to 1.58%) heading into the June 15th Fed meeting where Chairperson Yellen not only pushed back the timing of future hikes but also lowered the normalized policy target rate. Translation? When we get back to 'normal' times 2-3 years from now, money markets and CDs will likely only yield something akin to 2.50% rather than the 6% of yesteryear. Those types of yields are an ancient relic, at least in this market cycle, with a much lower interest rate ceiling and global capital markets responding accordingly.

EQUITY: With relaxed monetary policy as far as the eye can see, stocks pushed north reaching a new 2016 high on June 8th as the S&P 500® topped 2119. Stocks with stable earnings and high dividend yields especially benefitted given current low bond yields. Leading sectors included Telecom (7.06%), Utilities (6.79%), and Consumer Staples (4.63%). Healthcare (6.27%) also rose as the stable earnings growth profile of Medical Devices took its lead from Biotech. But the big winner was Energy (11.62%), as oil-related stocks gained alongside Crude Oil. Technology (-2.84%) struggled, however, as the three largest names in the tech sector (Apple, Alphabet, and Microsoft) all lost 7-12% in the quarter.

Given the leaders and laggards of the above sectors, it should come as no surprise that Value (4.57%) outpaced Growth (0.80%) for the second quarter in a row. And within the U.S. market, Small Caps (3.79%) finally broke a three quarter losing streak to beat their Large Cap (2.46%) peers.

Looking globally, the U.S. (2.63%) outpaced the rest of the world (-0.64%), with developed Asia (0.74%) and the Emerging Markets (0.66%) outperforming Europe (-2.79%) as a result of post-Brexit currency woes. Given all the political, economic, and healthcare turmoil in Brazil heading up to the Olympics, Brazil (2.94%) is not only positive this quarter but led all major countries so far this year (18.90%)—go figure! It's a perfect illustration of why diversification and rebalancing are so vital.

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FIXED INCOME: As referenced above, yields on the 10-year Treasury fell throughout the quarter and moved materially lower in early June. Post Brexit, yields fell even further and finished the quarter down 30 bps at 1.48% (marking the lowest yield since August 2012). Falling yields equate to rising prices, with U.S. bonds peaking at an all-time high—another reminder why diversification is paramount to long-term investor success. Unfortunately, many market-timers shed their high quality bond holdings after the '2013 Taper Tantrum.' The then 3.00% yield ultimately turned into a tremendous buying opportunity if one was diligent and sold winners and bought losers as part of a portfolio rebalancing strategy.

The Q2 drop in yields and rise in oil prices served as ideal tailwinds for the High Yield market (5.52%) which led all fixed income sectors. TIPS (1.71%) and Ginnie Maes (0.90%) lagged, but still posted positive returns.

Plunging yields were certainly not confined to the domestic market. Compared to the world's largest economies, the U.S. is actually the world's high yielder as it is now estimated that approximately $11.7 trillion of global debt trades with a negative yield-to-maturity (nearly double the previous quarter). The United Kingdom 2-year bond joined the negative ranks along with the 10-year German bund (-0.12%), the 10-year Japanese Government Bond (-0.23%) and Switzerland where even the 50-year bond trades with negative yields! We live in interesting times indeed.

ALTERNATIVES: Back in Q1, gold was the big winner as we then commented on how the precious metal was now a high yielder than bonds (yielding 0% compared to negative bond yields) and it again posted a strong quarter (up 6.88%). But it was Crude Oil that led all asset classes, gaining $8 (26%) during the quarter. Income-oriented assets that have old fashioned yields also posted strong returns, with Master Limited Partnerships (19.70%) and Real Estate (6.89%) leading the way as investors flocked to anything with a 3%+ yield.

OUTLOOK: There's no question that Brexit caused a political maelstrom resulting in political and economic uncertainty with a multitude of unknowns. But in times like these, it's important to focus on what we DO know. At this point, we can safely assume Brexit will not improve a weak global growth picture—it may do just the opposite. Given a sub-par growth projection, we therefore don't envision a material rise in interest rates in the foreseeable future. We therefore stand by our conclusion last quarter that: *"This cycle is anything but robust. Stocks can continue to grind higher but the math doesn't suggest a roaring bull market in stocks. But nor does it suggest materially higher interest rates in the near term, thus a diversified portfolio still makes sense. Consider adding a variety of income-producing assets, as 4-7% yields look quite attractive for the balance of 2016.*"

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