Eideard Group
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Market Commentary **Summer 2016**

At the Crossroads

Following what was an exceptionally strong US equity market comeback from mid-February into early April, the second quarter, all in, was relatively mild mannered but for the surprise outcome respecting the Brexit referendum. Notwithstanding the vote's late stage narrowing margin in favor of leaving the European Union, no one believed in an affirmative outcome. Hence when reality struck home, currencies and equity markets across the globe roiled while sovereign bond yields across Europe and much of the developed world turned even more negative on the massive flight to quality.

Here in the US, equities which had been trading in a typical pre-summer narrow range, abruptly fell some 5-6% before shoring up their losses, short of a week later, to close the second quarter out relatively flat. So too, the 10 year US Treasury yield fell to 1.36%, one of its lowest levels since mid-2012 as cash poured into the safe haven. Fortunately, unlike last summer's Chinese market meltdown which sparked an extended global panic, this time around investor reason took charge in rather short order on the notion that Britain's formal exit from the Union would not likely occur until well into 2017-2018, if at all. For now, however, the uncertainty surrounding the impact of Brexit on Britain, the EU and global growth at large is the only certainty we have to live with.

As to US market performance through the first half of the year, the broad US stock market, as measured by the Russell 3000 index, delivered just about +2.6%. Small and mid-cap stocks posting returns of between +3-4% modestly bested large cap stocks, which on average delivered +2.5%. Respecting style, value managers have begun to measurably outperform growth across all capitalization ranges through the six-month stanza. Internationally, the developed stock markets, as measured by the MSCI EAFE index, posted a much more meager return of -1.41% as global interest rates remain zero range bound and bond yields have gone negative. On the bond side of things here in the US, the Barclay's 10 year municipal index is up +4.7%, while high quality and high-yield corporates posted returns in excess of +5.3% and +9.0% respectively.

Meanwhile, prospectively speaking, much of our latest economic data appears to offer competing narratives on US economic growth, inflation and monetary policy. While much more granular data including a late first half surge in job creation, housing starts, retail sales, and industrial production had stirred investor confidence. The recent estimate of second quarter GDP growth of just +1.2% was surprisingly disappointing, especially when most economists had predicted at least double that rate. So too, the first quarter's downward revision to a meager +.8% cast a further pall on the outlook as economists project annual growth in 2016 to be historically unimpressive. With this latest data in hand, it is increasingly unlikely that the Fed will raise rates until probably 2017. Meanwhile, consensus suggests that the US consumer has been the driving force behind what meager growth there has been, while business investment appears to be trending further to the downside in favor of stock re-purchase programs. All in all, the picture has become more cloudy than just a few shorts weeks ago, which leads us to hope that some of these poorer metrics will be revised upwards the second time around.

Aside from this, as we proceed into the lazy days of August, our hope is that the markets remain sleepy and trade narrowly. This presupposes that the summer will be free from terrorist linked tragedies such as those in Orlando, Brussels, Paris and Nice. To us, this is probably the only wildcard in the deck that could upset our hopes for near-term financial market tranquility.