# Financial & Economic Review

The first quarter of 2016 wrapped up with a mix of positive and negative economic results. Large broad market swings, as well as a few persistent effects kept financial markets looking for direction. The broader US markets encountered a correction during the first two months of the year which was largely anticipated due to higher than average stock valuations. What wasn't foreseen was the ferocity of the downward move, which turned out to be between a 10% and 15% pullback. A mistaken belief that the Federal Reserve's low interest rate "stimulus" plan would end, driving rates higher toward normalcy proved inaccurate. Fed Chairwoman Janet Yellen, decided to pause the planned interest rate increases, in effect giving another surprise stimulus to stocks and causing a rapid recovery by mid-February. Lower Federal Funds interest rates for a longer period of time, possibly signaled to the market that our economy is not entirely healthy. Adding to the uncertainty, weak oil demand and excess supply persisted, as the brief increase in crude oil prices ended and resumed their march lower to end the quarter. Economic sanctions on Iran were lifted and they publicly stated their wish to get back to pre-sanction oil production levels, further increasing supply. OPEC, headed by Saudi Arabia, expressed interest in curbing production, but the damage to oil prices from uncertainty and doubt was already done. What is certain, is that the prolonged lower oil prices have hurt US Shale Oil producers and pipeline suppliers; many of which have seen a severe decrease in company valuation and stock price. Oil finished the quarter approximately 20% lower than at this time last year. We continue to anticipate oil price recovery in the near to medium term, as the current low price is economically unsustainable.

Internationally, new rules implemented to stabilize China's volatile stock market have had the opposite effect. The accompanying underlying weakness in the Chinese economy and throughout emerging markets as a whole, have added to market instability and sent many investors fleeing to the safety of US Treasury Bonds. The result was a drop in the 10-year Treasury bond yield to 1.78% to end the quarter from 2.24% at the beginning of the year. The outlook for manufacturing and consumer spending remain gloomy, while the housing market appears to continue to gain momentum.

The S&P 500, Dow Jones Industrial Average and NASDAQ Composite Index returned 1.4%, 2.2% and -2.4% for the first quarter of 2016 respectively. Utilities, Consumer Services and Consumer Defensive were the best performing sectors in Q1, rising 15.1%, 7.5% and 5.7%. Real Estate was not far behind, gaining 5.1%. The worst performing sectors this quarter were Financial Services and Healthcare, losing -6.1% and -6.0%. With the current level of volatility in the financial markets, we're encouraging investors to remain cautious and selective, taking advantage of 5% or greater pullbacks in the market to allocate new investable cash. We continue to anticipate modest broad market returns over the next several quarters and years[1].

We appreciate your business and look forward to helping you navigate the financial markets throughout 2016 and beyond. Continually growing your investments and earning your trust and referrals remains our sincerest priority.

Respectfully Submitted,

Jack A. Kennedy
Chief Investment Officer

[1] Results referenced from Morningstar.com

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1009 East Ave. • Clermont, FL 34711 • Toll Free 877.398.0051 • Fax 877.398.0050 • www.jbmeridian.com