MarketUpdate

Markets stabilize...

After a dismal January, financial markets stabilized in February, ending the month at close to even following earlier declines. The Dow Jones Industrial Average was up 0.75 percent, the S&P 500 Index dropped 0.13 percent, and the Nasdaq was down 1.03 percent. All major U.S. indices are still negative for the year.

February's initial declines were caused by fears of a slowing U.S. economy, decreasing earnings, and global political risks. The recovery set in when news emerged indicating that those fears may have been overblown. For example, corporate earnings came in somewhat stronger than expected. Per FactSet, earnings for the fourth quarter of 2015, reported in February, declined 3.3 percent—less than the 3.9-percent decline estimated at year-end.

Nevertheless, revenue growth for the last quarter of 2015, reported in February, was weak, down 3.9 percent. Sales data is important because it reflects actual customer demand, and higher sales-growth rates support the prospect of future earnings growth. For the fourth quarter of 2015, however, much of the damage resulted from poor performance in the energy sector. Excluding energy, revenue actually grew 0.3 percent.

Technically, because of January's declines, the markets started February below their long-term moving averages and, despite a partial recovery, closed the month in similar territory.

Developed international markets posted the worst returns of any major index in February, with the MSCI EAFE Index down 1.83 percent. The MSCI Emerging Markets Index did better, down just 0.15 percent. Technically, both indices are well below their long-term moving averages.

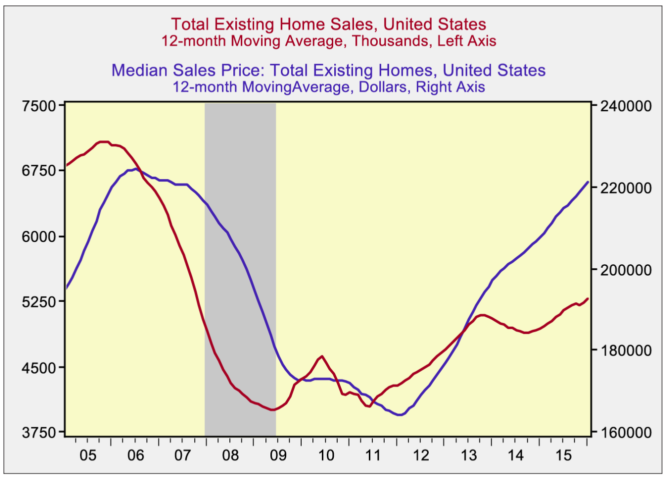
Turbulence in the stock markets was good for fixed income. The Barclays Capital Aggregate Bond Index was up 0.71 percent in February, and the Barclays Capital U.S. Corporate High Yield Index rose 0.57 percent.

...And the economy shows signs of improvement

February began with strong employment data. A longer work week added to labor demand, and wage growth hit its highest level in some time. In addition, personal income growth ticked up to 0.5 percent by month-end, and spending growth matched it. Existing home sales were also stronger, up to 5.47 million, and home prices continued to rise (see Figure 1).

Industrial production figures hit their highest growth level since November 2014, and the numbers included growth in manufacturing output, a sign of stabilization. The improvement was ratified by a strong durable goods orders report.

Figure 1. Existing Home Sales and Median Prices



Source: National Association of Realtors/Haver Analytics

Global recovery continues but may be slowing

Economic reports for the rest of the world were mixed. China's economy grew at lower-than-historical levels despite increased policy stimulus. Though Europe's economic situation continued to stabilize, issues giving rise to uncertainty included the Syrian refugee crisis and a growing banking crisis in Italy. The scheduling of a referendum in the United Kingdom on exiting the European Union generated additional uncertainty.

Oil continues to generate fear

During January, substantial volatility in oil prices drove fears of a global recession. At February's end, however, prices were almost back to where they had been at the start of the year, suggesting that they may have bottomed out.

Enjoy the stability but don't be surprised by more volatility

February's market recovery was a relief, and improving economic reports offered encouragement to investors, but risks remain. Although we expect the U.S. economy to continue to grow, last year's weak fourth quarter shows that this is by no means guaranteed. In Europe, the economy is on the mend, but politics could cause a rocky summer, and China's efforts to spin up its export machine could spark trade disputes.

In short, substantial uncertainty remains. Despite February's better market results, we believe that it is important to maintain a disciplined investment process. Through good times and bad, this is the key to achieving long-term financial goals.

All information according to Bloomberg, unless stated otherwise.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Barclays Capital Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Barclays Capital government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Barclays Capital U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada.

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