SPECIAL UPDATE

Global Hysteria!

Special commentary for January 7, 2016

We are only in the fourth trading day of 2016 and global concerns are dominating the financial market landscape. In only 96 hours, the S&P 500 has been pulled into negative territory (down ~3.6%) based on investor anxieties of what is happening across the globe.

First, it was China's circuit breakers halting trading on Chinese stock exchanges on Monday. On Tuesday, tensions in the Middle East between Saudi Arabia and Iran captured investors' attention. Then Wednesday, investors became spooked over North Korea claiming it detonated its first hydrogen bomb in an underground test site.

And today, China's stock markets were halted again in overnight trading. This time, the circuit breakers stopped trading after a 7% selloff and only 30 minutes of trading.

In many ways, 2016 has resembled 2015 and it may continue that trend. The first week of trading this year has been dominated by the global picture. Global growth was uneven in 2015 and early predictions for 2016 show that will likely be true again this year. Beyond sluggish global growth and heightened geopolitical uncertainty, the risk-off investor mindset is being exacerbated by speculation of global currency wars. We believe we are in the midst of a very long (if slow) economic expansion that should produce choppy returns in most asset classes.

Despite the negativity and uncertainty, there are still several bright spots in the investing world. Admittedly, financial markets are more interconnected than ever, but 87% of the U.S. economy is domestic in nature. Only 13% of U.S. GDP is tied to trade with other nations. The U.S. has the ability to weather the storm of an overseas slowdown. The proof is in the pudding:

- Despite issues in 2015, the U.S. economy continued to grow modestly – full year 2015 GDP should come in around ~2.1%.
- Unemployment continued to decline in a meaningful way. In 2015, the unemployment rate in the U.S. fell from 5.7% to 5.1%.
- The American consumer makes up 70% of economic activity. The housing and auto sectors have continued to paint a picture of consumer strength. For full year 2015, U.S. auto sales hit a record of 17.5 million vehicles, breaking the mark of 17.4 million vehicles in 2000.
- Low gasoline prices, loose credit and moderate economic growth will continue to boost consumer spending in the year ahead. In 2015, the Consumer Discretionary sector was the top performer, outpacing the S&P 500 by nearly double digits.

With that being said, will 2016 be dominated by the negatives or will the positives win? It's difficult to say. But we do know that moments of extreme volatility is when the true value of diversification bears its fruits. A diversified portfolio is an effective tool for combatting market turbulence. Rest assured, we are monitoring the situation very closely. Please give us a call if you have any questions. ■

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