

SELECTOR[®] Money Management ***2016 First Quarter Review***

The First Quarter Of 2016 Showcased Several Trend Reversals

The most dramatic have been the sharp trend reversals in the healthcare sector. Healthcare had been a leading sector for several years, but is now decidedly out of favor. There are two very plausible reasons. First, both political parties are unloading on healthcare costs during the election year. Second, this has been the most profitable industry sector for the past three years, representing significant gains that had yet to be harvested. The Dow Jones U.S. Health Care Index declined by -13.4% in the first quarter before rallying back at quarters' end, still down -6.7%. The Dow Jones U.S. Pharmaceuticals Index fell -19.9%, closing the quarter down -13.7%, while the Dow Jones Biotechnology Index dropped -29.0% before finishing the quarter down -22.8%.

There were several positive trend reversals in the first quarter, as well. The Dow Jones U.S. Basic Materials Index broke its downtrend in the first quarter, finishing the first quarter of 2016 with a gain of +4.2%. The MSCI Emerging Markets Index broke a year-long downtrend to close the first quarter with a gain of +6.4%. The Dow Jones Utilities Index broke to the upside from a 12-month trading range and registered gains of +15.4% in the first quarter, with over half occurring in the month of March. The most dramatic trend reversal occurred with the Gold Miners and Silver Miners Indexes. These sectors had been decimated in recent years but their positive trend reversal in the first quarter was epic, with gains in excess of +50%. Of course, these are purely speculators' markets and generally unavailable to most investors.

It is important to note that 2016 opened up with a moderate correction that dropped the S&P 500 by as much as -11.4% in the first five weeks. At the end of the first quarter the S&P 500 was almost even for the year after climbing for seven straight weeks. Mid Cap Indexes fared slightly better and Small Cap Indexes slightly worse. It was a rough start, which accentuated the positive trend reversals even more.

International Equities Saw More Sobering Returns

While the rebound in basic materials provided a much-needed boost to Latin American markets and Emerging Markets in general, the broader international and European equities indexes remain in downtrends. The MSCI EAFE Index declined by -2.7% in the first quarter. The S&P Europe 350 Index registered a loss of -2.5% in the first quarter. Both of these indexes declined sharply with the January correction and both were able to recover significant portions of their relative losses.

Bond Markets Took Full Advantage of Equity Markets' Difficulties

The U.S. Dollar retreated versus foreign currencies in the first quarter, which benefitted international bond markets. U.S. Treasury markets advanced in the face of the equity market correction in January and February, and held on to those gains in March. U.S. corporate bond indexes also had quite positive moves in the first quarter. Another positive trend reversal took place in with the high yield bond market in the first quarter, which experienced very strong inflows of institutional capital, reversing the strong outflows of the fourth quarter of 2015. In fact, every single bond index that we follow had a positive first quarter. The S&P/Citigroup International Treasury Bond Index finished the first quarter up +8.4%. The Barclays U.S. 10-20 Year Treasury Bond Index rose +5.8%, and the Barclays US Aggregate Bond Index gained +3.0% in the first quarter. The Markit iBoxx USD Liquid High Yield Index gained +2.4%.

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