SELECTOR® Money Management
2016 Year End Review

The Fourth Quarter Was Bolstered By The November Surprise

This was a recurring theme in 2016 as domestic equity markets would sprint for six weeks, then settle into a trading range for a few months. The first sprint was actually in the wrong direction as we witnessed the worst January on record. March saw a reversal to the positive before equities settled into a trading range for the next three months. The next sprint was signaled by the Brexit Vote in late June, again with a starting kick in the wrong direction. That was followed by another trading range 'nap'for another three months. Last but not least, we had the Election Rally, also set up by a nine-day sell-off. The year closed out with another nap that has carried into the new year. After a total of six weeks correcting, 18 weeks sprinting, and 28 weeks napping, the U.S. equity market came away with a win. The final tally for the Russell 3000 Index, which effectively captures 85% of the U.S. equity market, was +12.74%.

The Hottest Sectors Of 2016 Were Directly Or Indirectly Related to Energy

Crude oil prices, and the energy sector in general, had been on the decline since the summer of 2014. The reversal began in January of 2016 and the extended downtrend was broken in May. After three more months of base-building the energy sector was on its way. The S&P 600 Energy Sector Index finished 2016 with a gain of +37.67%! The basic materials sector, while not suffering as long or as deep a downtrend as energy, rallied in sympathy with energy through the remainder of the year. These two sectors were the biggest winners in 2016, and because they include some of the largest companies in the world, were strong contributors to the general increase in optimism for equities as the year progressed. Significant trend reversals from positive to negative occurred mid-year in 2016 for both the utilities and the real estate sectors. The weakest sector of the year was health care. The S&P 600 Health Care Sector Index finished 2016 with a gain of just +2.20%.

Developed International Equities Continued To Flounder

European equities struggled with implications of Great Britian's surprising vote to exit from the European Union, as well as the effects of ongoing terroristic activity. The MSCI All Cap Europe Index finished 2016 with a gain of just +0.36%. On a broader front the MSCI All Cap World Index (excluding the U.S.) ended with a gain of +4.50%. Emerging markets equities benefitted from the effects of higher energy prices as well as higher commodity prices related to the basic materials sector. The MSCI Emerging Markets Index finished 2016 up +9.90%, with a strong push from the Latin American equity indexes.

Bond Market Returns Were Quite Muted As Interest Rates Remained Very Low

There was a significant drop in bond market indexes in the fourth quarter as equity indexes rose. These declines were the most significant in those bond sectors generally regarded as being higher quality and longer term. The sharpest drop was seen in the Bloomberg Barclays US Treasury 20+ Year Index, which fell -12.16% in the fourth quarter alone to finish the year up +1.43%. The Bloomberg Barclays US Aggregate Bond Index dropped -2.98% in the quarter to finish +2.65% in 2016. Also impacted was the Bloomberg Barclays Municipal Bond Index which fell -3.62% in the quarter to finish up a mere +0.25% for the year. While none of the bond indexes that we monitor ended 2016 in minus territory, their total returns, with the exception of the high yield bond indexes, were all in the single digits.

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