SELECTOR
Real-Time Money Management

Monthly Commentary

April 25, 2016

"Good investors gather information, put that information into current and historical context, then make sound decisions."

Current conditions for financial markets are as positive as we have seen this year. After another dreadful January and February, domestic equity markets have been steadily repairing the damage. In the past two months we have seen equity prices rise steadily, doggedly, once again reclaiming positions at the upper end of a sideways trading range that stretches back to the first quarter of 2014. While the markets' persistence is admirable, its inability to break above the resistance is taking a toll on one-year and two-year performance. Three-year performance is still positive but stuck in the single digits. While technically this is still a long-term Bull Market, it sure hasn't felt like one.

Equity market leadership thus far this year has been eclectic in nature. It has featured a number of domestic sectors and international regions that had been under selling pressure for years. Precious metals and mining have been the top-performing industrial sectors year-to-date. On the international front, Latin America and Russian markets appear to be finally breaking long-term downtrends. In fact, emerging markets in general have assumed market leadership outside the United States on a relative basis and are out-performing traditional developed nations and regions such as Europe and Japan.

Energy prices appear to be working on forming a bottom after their precipitous decline in 2015. After light crude oil traded as low as $26.05 a barrel in February it has rallied back into the low $40 range. With oil prices under $70, a widely-regarded threshold of profitability for shale oil production, U.S. and Canadian shale oil first pushed into reserves, then rapidly curtailed production. Internationally, the average price of oil recovery is generally regarded as being the low $40's per barrel, which is where current prices are stabilizing. Russian and the Middle Eastern producers are very profitable at these levels and their flows have been unrestricted. This has resulted in a stalemate for the time being until demand begins to overwhelms supply.

The U.S. economy has been advancing at 'plow horse' speed, but has not turned negative on a quarter-to-quarter basis. Not surprisingly, domestic equity markets have also been advancing at plow horse speed for the last few years. There are a number of potential catalysts that may come into play in the upcoming months. First and foremost, this is an election year. It is anyone's guess how financial markets will react to the ultimate outcome, but thus far they have been agnostic, which raises the potential for a surprise reaction. Interest rate increases were a popular topic in 2015, but have moved to the back burner in 2016. Once again, there is a potential for a surprise market reaction. Oil prices and the ever-present international incident also could come into play. None of these potential catalysts are new stories. But they are still potentially significant contributors.

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In the meantime, both domestic and international bond markets have been productive year-to-date, an ongoing testament to the tortoise vs. hare competition. Even with the decline of the U.S. Dollar in recent months, every domestic bond index that we follow is in positive territory for the year. Their returns are in the single digits, but, for that matter, equity returns have only recently turned positive for the year, and with significantly higher relative volatility. International bond markets have been particularly productive with the U.S. Dollar's declines. The net result is that portfolios that hold both equities and bonds have had the upper hand in 2016 over portfolios that hold only equities. Of particular note over the past several weeks are the trend reversals for natural resources and emerging markets equities. Aside from those equity sectors, it has been pretty much a yo-yo type of market environment, with a lot of motion but not much progress.

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Sources: Bloomberg, Marketwatch.com, StockCharts.com