SELECTOR
Real-Time Money Management

Monthly Commentary

March 16, 2016

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

Last month we talked about the possibility that the then-current equity market correction may be coming to an end. That very early prediction turned out to be 'spot on' and equity markets are now significantly higher across the board. The low print on the DJIA for this correction was 15450.56 on January 20th, with a positive test at 15503.01 on Feb 11th. Since that positive test, the DJIA has gained 1,822 points, or +11.75%. That being said, the DJIA is still in negative territory for the year, down -1.51%. The S&P 500 has had similar results with a low print on Feb 11th, a positive test on Feb 11th, and a gain since of 11.99%. The S&P 500 is also still in negative territory YTD at -0.78%.

Mid Cap and Small Cap domestic equities declined even more sharply during the correction, but have also rebounded more exuberantly. These sectors had both experienced poorer returns in 2015, after seeing their highs for the year in May. The Russell 2000 Small Cap Index declined -21.68% during the correction from its December high, and in spite of recovering +16.39% from those lows, still rests -5.00% YTD. The S&P 400 Mid Cap Index declined -17.51% during the correction from its December high, recovered +15.72%, and is now up by +0.50% YTD.

International equities are still struggling to recapture positive trends. For reference, the S&P Europe 350 Index declined by -24.42% from its May 2015 high to its February 2016 low. Since then it has rebounded by +11.64%, and it is now down -2.47% YTD. The MSCI Emerging Markets Index had a much more difficult 2015, declining by -35.92% from its May 2015 high to its February 2016 low. Since then it has rebounded by 19.96%, and just recently moved into positive territory year-to-date, +0.09%.

Bond markets were the beneficiaries of capital that moved out of equities in January and February, and have moved modestly higher across the board. The ever-volatile U.S. Government Bond market has gained the most thus far in 2016, followed by Emerging Markets Bond markets that are often priced relative to U.S. Government bonds rather than their local currencies because of the substantial trade that is conducted with the United States. High yield bond markets have also been trending higher, in accordance with the price of oil. The Barclays U.S. Aggregate Bond Index is now up +1.82% YTD. Interestingly, in spite of the Federal Reserve's single interest rate increase in 2016, every single bond index that we monitor is in positive territory for the year. A part of this relative stability may be attributed to the equity market correction.

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Equity markets have been rapidly repairing themselves after this formidable correction. Which begs the question, what are they preparing themselves for in the future? Even with a complete recovery to 2015 year-end prices, we have to consider how much 2015 actually brought to the table for equity investors. In general, it was a trading range year with a negative slant, especially during the fourth quarter. The traditionally profitable November-December-January period proved to be anything but profitable, offering up yet another correction. The reality is that we are now in the seventh year of a Bull Market, dating back to March of 2009. There have been considerable advances during this Bull Market, but following considerable declines during the 2007-2008 Bear Market that was accompanied by a general banking and insurance meltdown.

So where is the good news? Interest rates remain extremely low. The economy continues to slowly grow and expand. These two powerful trump cards (trump, not Trump) cannot be ignored by prudent investors and will not be overlooked by institutional investors. Patience is the watchword for equity investors at this juncture.

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Sources: Bloomberg, Marketwatch.com, StockCharts.com