Hinds Financial Group Quarterly Economic Outlook Q2 2016

After a rough start to the year--the S&P 500 fell more than 11% in the first six weeks of 2016--the market abruptly reversed course. Although the "Brexit" vote caused volatility in June, at the end of the second quarter market indexes were within a few percent of the all-time high. As of the day of this writing many were above their June 30 prices. The fears that had gripped investors early in the year haven't exactly gone away: Economic growth is still sluggish to nonexistent around the world, corporate earnings are moving in the wrong direction, and valuations remain well above historic norms. However, investors appear to be coalescing around a worldview that's even gained its own endearing acronym: TINA, as in "there is no alternative" to stocks. Our funds that hold domestic dividend paying stocks have been our best performers so far this year. We don't know if that will continue but we continue to own them for both their dividends and stability. Coming into 2016 we were overweight to growth stocks and admittedly that has not worked out as well as we thought, but we continue to favor a thoughtful balance between growth and value. For many investors we took advantage of the Brexit market fall to invest some cash into more dividend paying US stocks.

Defying previous expectations for multiple Federal Reserve interest-rate increases this year, long-term Treasury yields (remember bond prices and yields act inversely) have drifted lower since the beginning of 2016. At first, this was seen as reason for concern. If the Fed isn't in a position to raise rates now--seven years into the recovery and with unemployment at just 4.7%--when will they move? The Fed is also considering the affects that higher yielding bonds in the US might have on the strength of the US dollar. The US Treasury Bond is already one of the highest yielding government bonds (compared to other countries), and higher rates could bring in even more money from outside the US. A strong dollar *hurts* demand for some US companies as their goods become more expensive for buyers outside the US.

The drop in interest rates explains half of the year's best-performing sectors: Defensive stocks like utilities, REITs, and consumer staples--widely viewed as the most bond-like stocks--have been on a tear. The other half of the story can largely be attributed to a rebound in commodity prices ranging from oil to iron ore.

Commodity prices are still well below their levels of a couple of years ago, but they're well above the recent lows, giving investors hope that the worst may be behind us. As a result, energy and basic materials have joined the most defensive sectors in leading the market higher in 2016--one of the stranger correlations you'll see.

The biggest news of the second quarter came in the final days of June, when voters in the United Kingdom unexpectedly voted to leave the European Union. However, while the Brexit vote dominated headlines and led to sharp short term losses in the equity markets, the initial impact on the fixed-income markets has been relatively muted, but positive for bonds. Our clients sometimes wonder why we choose to own bonds-during the reactive days in June-Treasury Bond prices rallied sharply in the days following the vote. Increased bond prices are a positive for the values of portfolios.

Ironically in a year where international stocks have not done very well measured by the EAFE index, our international managers have done quite well. In several cases they are having returns similar to US stocks. We came into the year with less international exposure than we have had in the past. At this time we see no reason to increase that allocation. Though European stocks might be less expensive than the US, there may be good reason for that. Our international mangers had cash allocations going into the Brexit and they had cash to buy at opportunistic valuations.

Though we have made several marginal changes in portfolios year to date, we have not drastically changed our allocations between US, International, and Fixed Income. Today’s market environment requires patience and discipline to manage. Our investment committee continues to meet weekly and we have concluded that no changes are currently needed. And that is just fine.

If you have any questions please feel free to contact us,

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