

Quarterly Outlook

APRIL 2016

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TANDEM
WEALTH ADVISORS

First Quarter 2016

Coming off the heels of the Federal Reserve's mid-December decision to begin normalizing interest rates, uncertainty was the primary driver of markets throughout the first quarter of 2016. Historically, volatility increases at the onset of tightening monetary policy and, somewhat predictably, this is what we have seen so far in 2016. Interest rate normalization is a delicate process that is understood by few and feared by many; it comes as little surprise that investors would react with apprehension. The S&P 500 managed to finish positive for the quarter, adding 0.77% after recovering from temporary losses of more than 10%. The best performing sectors in Standard & Poor's index were utilities and telecommunications.

Energy was among the poorest performing sectors in the quarter as global oil supply continues ahead of demand. Weaker energy earnings are expected once companies start reporting in late April. US production declines and announcements of a potential oil production freeze helped support prices. Consumers continue to benefit from low gas prices.

A growing positive outlook for consumer spending appears to be attributable to savings at the pump, higher wages and lower unemployment. Growth of business inventories and capital expenditures signaled that corporations are experiencing expansion despite weaker corporate earnings in 2015. US interest rates, corporate earnings, the US presidential election cycle, geopolitical events such as global terrorism, and oil prices are all adding to a weak global outlook. The Chinese slowdown has changed the outlook for trade and manufacturing worldwide. Instability in the People's Republic led to an increase in the inflow of funds into US Treasury securities, pushing the US dollar up in value against international currencies.

Going Forward: Tandem's Outlook

Equity prices won't stabilize until the global economy and US corporate earnings show signs of improvement throughout the year. Tandem expects another weak year in US markets with a flattening of gains for investors (much like 2015) and feels the right strategy will be to ride out such continuing global headwinds utilizing strategic asset allocation and broad diversification. Our economic outlook has not changed materially. We expect slow growth and further labor market improvement in the US and other larger developed economies globally, despite a slow Fed rate increase and China's ongoing volatility. While threats to expansion remain, we are optimistic about the coming years. We believe conditions will continue to improve.

Markets are likely to remain volatile this year until signs of strength develop, and we recommend a long-term focus as markets revert to a mean average over time. Even during periods of fluctuation in asset values, investors continue to collect dividend and interest income on portfolios. Tandem encourages its clients to look beyond the short term on the path to achieving their personal investment goals.