

Quarterly Outlook

JULY 2016

Tandem does not expect large-scale changes in the short term; markets may behave similarly in the second half of 2016 as they did in the first half.



TANDEM
WEALTH ADVISORS

Second Quarter 2016

As the first half of 2016 came to a close, US markets continued to close in on the all-time highs set in May of 2015. Strong performance from the energy and utilities sectors carried the weight for disappointing results from the technology and consumer discretionary sectors in a reversal of last year's trends. The price return on the S&P 500 for the quarter was 1.9% with a 2.46% total return (including dividends).

Markets rallied in the final days of the second quarter of 2016 to regain ground lost during a two-day selloff following the UK's referendum calling for an exit from the European Union. The severity of the markets' response to the so-called "Brexit" vote was unmerited, as the terms of the exit, and therefore its implications, are still unknown.

Oil prices rebounded some 70% from their first-quarter lows, reaching \$50 per barrel in response to increasing global demand. China's economic stimulus actions have failed to produce meaningful results, with domestic investment hitting all-time lows in May.

First-quarter GDP growth was recently revised upward from 0.8% to 1.1% despite facing obstacles such as a strong dollar, cheap oil, and weak global demand. Low levels of unemployment continue. The Federal Reserve has yet to take further action in their patient process of interest rate normalization, perhaps as a result of the disappointing May jobs report and continued global economic woes. US manufacturing remains an area of concern given weak global demand.

Going Forward: Tandem's Outlook

Tandem does not expect large-scale changes in the short term; barring some unforeseeable event of a serious magnitude, markets may behave similarly in the second half of 2016 as they did in the first half.

Historically, election years in the US tend to be less than desirable in terms of market performance. Investor confidence can be easily dampened, if subconsciously, by the rhetoric of candidates who prefer to highlight and exaggerate economic troubles so as to assert their unique capacity to alleviate them.

Futures markets do not predict another interest rate increase by the Federal Reserve this year, though it is certainly possible. Low levels of inflation, uncertainty regarding the terms of UK's departure from the EU, and the upcoming presidential election may be enough to convince members of the Federal Open Market Committee to refrain from taking further action in the short term.

Tandem continues to apply an informed, disciplined approach to managing clients' portfolios. As always, we suggest maintaining a long-term focus in times of short-term uncertainty as a result of global economic concerns, US Fed policy uncertainty and the upcoming presidential election.