ALLEN MOONEY BARNES

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Overview

The first quarter of 2016 started off by creating significant market anxiety for many investors as we had the worst start to a year in the history of the stock market. Many analysts and brokers believe this was due to a culmination of economic and fundamental reasons such as:

- **Federal Reserve Rate Hike** – The Federal Reserve initiated a rate hike cycle in December for the first time in over a decade, which coincided with some of the worst economic data we have seen here in the US in over 2 years. It appeared as though the Fed had erred on policy which led to the market reacting to this in a negative way.
- **Global Economic Slowdown-** The global economic slowdown we are currently seeing can be attributed to the world's main growth engine of China. China was slowing at a rather rapid pace. When the number one exporter in the world begins to slow, it doesn't bode well for the rest of the globe.
- **Oil Prices -** At the beginning of the year, oil prices fell to lows that we have not seen since 2003. Yes, lower oil prices are a positive for consumers, however, job growth in the US, especially high paying jobs since 2009, has come from expansion in the oil patch. These high paying jobs are being lost and what would usually be a positive for spending actually has become a head wind.

The examples listed above are a few of the macroeconomic concerns dominating the market as well the potential issues stemming fundamental valuations of the market. The S&P 500 was trading at a staggering 18x NTM earning coming into 2016, while the average 10 year multiple is around 15x. The price multiple continued to climb going into the end of the year as analysts' earnings estimates for companies continued to decrease. In June of 2015, earnings estimates were expected to be around $129, but at the beginning of January those numbers had declined to $118, which drove the price multiple sky high. At the same time this was going on, corporate credit spreads were at extremely wide levels that had not been seen since the end of The Great Recession, which had investors on edge that the US economy may be headed for an eminent recession. With so much going on in such a short period of time caused a drastic increase in uncertainty and volatility. However it seems some of these worries were overblown. Data around the world has begun to increase

slightly and credit spreads have started to tighten.   This led to a major reversal in the market from the February low which allowed the market to have a positive close for the quarter with a return of 1.35%.

Equity Outlook

Equity Markets rebounded significantly towards the end of 2016's first quarter. Even with economic data coming in weaker than expected, we remain constructive on US equities. As we previously stated, with volatility comes opportunity which was exhibited in the January- February selloff. This selloff in the market gave AMB great opportunities to invest excess cash which had accumulated towards the end of 2015. We do believe the volatility experienced in the first quarter will remain, thus providing investors and financial advisors with further opportunities. As the market continues to climb higher, valuation on the overall market will continue to become stretched much like the beginning of the year however, there are still individual companies that have strong fundamentals and whose investment stories remain intact. These are the names that we will be looking to invest in going forward.   So in short you could say we are not bullish on the market, but rather bullish on individual stocks.

Fixed Income Outlook

Interest rates for 2016's Q1 were at extremely low levels, which could temper Q2 returns. AMB believes interest rates will remain at low levels for the foreseeable future. We do expect short term rates to gradually move higher, but intermediate to longer term rates to continue to be suppressed, which is where we will be positioned. There are a few reasons for this thinking:

1. AMB believes inflation, wage and GDP growth are going to remain low. As we have mentioned US GDP is comprised of 70% spending and without wage growth we do not believe inflation or GDP will pick up.
2. The other big driver of GDP growth is capital investment, which we believe will continue to be moderate. We continue to see corporations investing in share repurchases and dividends instead of using these funds for investment, which points to the fact that positive NPV projects are not being found, which will be drag on US growth.
3. Interest rates of other developed nations remain well below what we are seeing here in the US. As the countries continue to devalue their currencies and suppress their interest rates through monetary measures, we believe capital inflows will continue to come into our bond markets as long as our interest rates remain at a premium to the rest of the world.

Although we do not see big returns in the coming months in fixed assets we need to remember why we are invested in fixed income which is not for capital appreciation. Our fixed income portfolios are built to give consistent and reliable cash flows and principal protection in volatile markets.

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