2nd Quarter Overview
June 2016

First Quarter Recap

The first quarter of 2016 brought with it one of the worst starts to a year in the history of the US stock market. Q1 volatility resulted from a confluence of factors, including depressed oil prices, global growth concerns related to China and overall lofty valuations. Additionally, the FOMC initiated the first rate hike in a decade during the quarter.

Second Quarter Overview

By contrast, the second quarter was quiet and somewhat complacent. The quarter produced steady gains from April thru June up until the Brexit vote. The UK voted 52% to 48% in favor of leaving the European Union, the first time any member of the EU has attempted to leave the bloc. The resulting uncertainty produced a steep and immediate selloff, with global markets gapping down on June 24th in one of the worst trading days in recent years. While the markets reacted unfavorably to this surprising outcome, AMB expects that US and global markets will continue to grow at a slow to moderate pace – a stance we have not changed in the aftermath of the Brexit vote.

AMB believes that one of the biggest outstanding questions is not necessarily how the Brexit decision will affect the UK, but the impact that it will have on the EU as a whole. Is it possible that this will initiate a domino effect of secession among other EU nations? What will be the impact on Germany? Remember, the UK is the second largest EU producer by GDP as well as the fifth largest in the world. AMB will continue to closely monitor currency exchange rates, commodity prices, valuations and volatility in the financial markets to help address these questions. Ultimately, AMB believes that Brexit woes are a case of pessimism and volatility that presents an opportunity to investors.

Outside of the current political atmosphere, AMB believes that one of the most pertinent market related questions pertains to the effectiveness of global monetary policy. Are global central bankers winning the fight against deflation? Are their monetary policy tools actually working to reflate their respective economies? While Janet Yellen states that there are considerable outstanding uncertainties with regard to economic outlook, the FOMC has implied that economic conditions will continue to improve, warranting gradual increases to the Fed Funds Rate. Previously, uncertainties were largely attributed to China, but Europe has entered the spotlight as a new focal point of concern.

Central bankers around the world are deploying unconventional policies, including quantitative easing, negative interest rates and the outright purchase of equities in attempts to create liquidity, drive capital investment and stimulate growth. Though it appears that central bankers have succeeded in supporting asset prices, growth and inflation remain elusive. AMB has yet to see any developed nation break free from the malaise, but we remain positive toward US equity markets because slow growth is growth nonetheless. Going forward, we will continue to diligently monitor key indicators of inflation and growth to determine if these policies will at last take hold and drive the economic expansion we all have been longing for.

Equity Overview

US equity markets have experienced significant volatility over the past two quarters. The first extreme bout occurred at the beginning of the year as we faced a culmination of forces originating in Q4 2015 that pushed the market down 10% from its high. We then experienced a period of relative calm, wherein the S&P 500 rallied over 15% from February lows. This rally enabled AMB to take advantage of value created during the preceding correction. The unexpected UK referendum turned out to be one whopper of a surprise, however.

The Brexit vote was accompanied by a jolt of uncertainty about future economic growth and political instability that resulted in the steep selloff we referred to earlier. The selloff in global risky assets is estimated to have totaled $2 trillion, and US equity markets fell over 5% in just two trading days. Despite the gloom, AMB remains positive on individual equities. Over calendar quarter one, S&P 500 components had an earnings beat rate of 73% with an average earnings surprise of 7.7% to the upside. However, the materials, energy, and financial sectors were largely responsible for overall year-over-year earnings growth of -6.84%. In contrast, the market realized earnings growth in consumer discretionary (21.32%), healthcare (8.03%) and telecom (9.15%). AMB remains overweight in two of these three sectors.

In the wake of ZIRP and QE, it has become increasingly difficult to find yield for individuals and retirees without accepting risks that are beyond their individual tolerances. This has resulted in a "chase for yield" as investors attempt to maintain investment income at previous levels. The chase for yield has led to stretched valuations in areas of the market that would usually be deemed defensive, such as consumer staples and utilities. For this reason, AMB has been slowly rotating out of what we perceive to be overvalued sectors and into sectors that we still believe are relatively undervalued and positioned to perform well in the current economic environment.

Fixed Income Overview

Interest rates remained relatively stable throughout the second quarter up until the UK referendum, which led to a drop in yields as money flowed from risky assets into risk-free assets. Although we expect short term rates to gradually increase, AMB is positioned for intermediate and longer term rates that we believe will remain suppressed for the foreseeable future. AMB's outlook on rates has remained mostly unchanged since the end of the first quarter and listed below are some highlights of AMB's current perspective:

- Although the FOMC is indicating four rate hikes this year, AMB expects only one hike to occur (likely in December) due to political and economic uncertainty.
- AMB expects inflation, wages, and GDP growth to remain low. With 70% of GDP tied to consumer spending, we do not believe GDP or inflation will pick up without wage and spending growth.
- We continue to see corporations participate in share repurchases and dividends instead of using these funds for investment. Uncertainty regarding monetary and fiscal policy following the UK referendum will lead to greater caution toward new products. Given these circumstances and a dearth of positive NPV projects, it seems that capital expenditures will take a back seat for some time
- Interest rates of other developed nations remain well below the US. As countries continue to devalue their currencies and suppress interest rates, we believe capital inflows to US bond markets will continue as long as our rates remain at a premium to other nations.

AMB is not investing in fixed income for capital appreciation. Our fixed income portfolios are built to provide consistent and reliable cash flows as well as principal protection in volatile markets.

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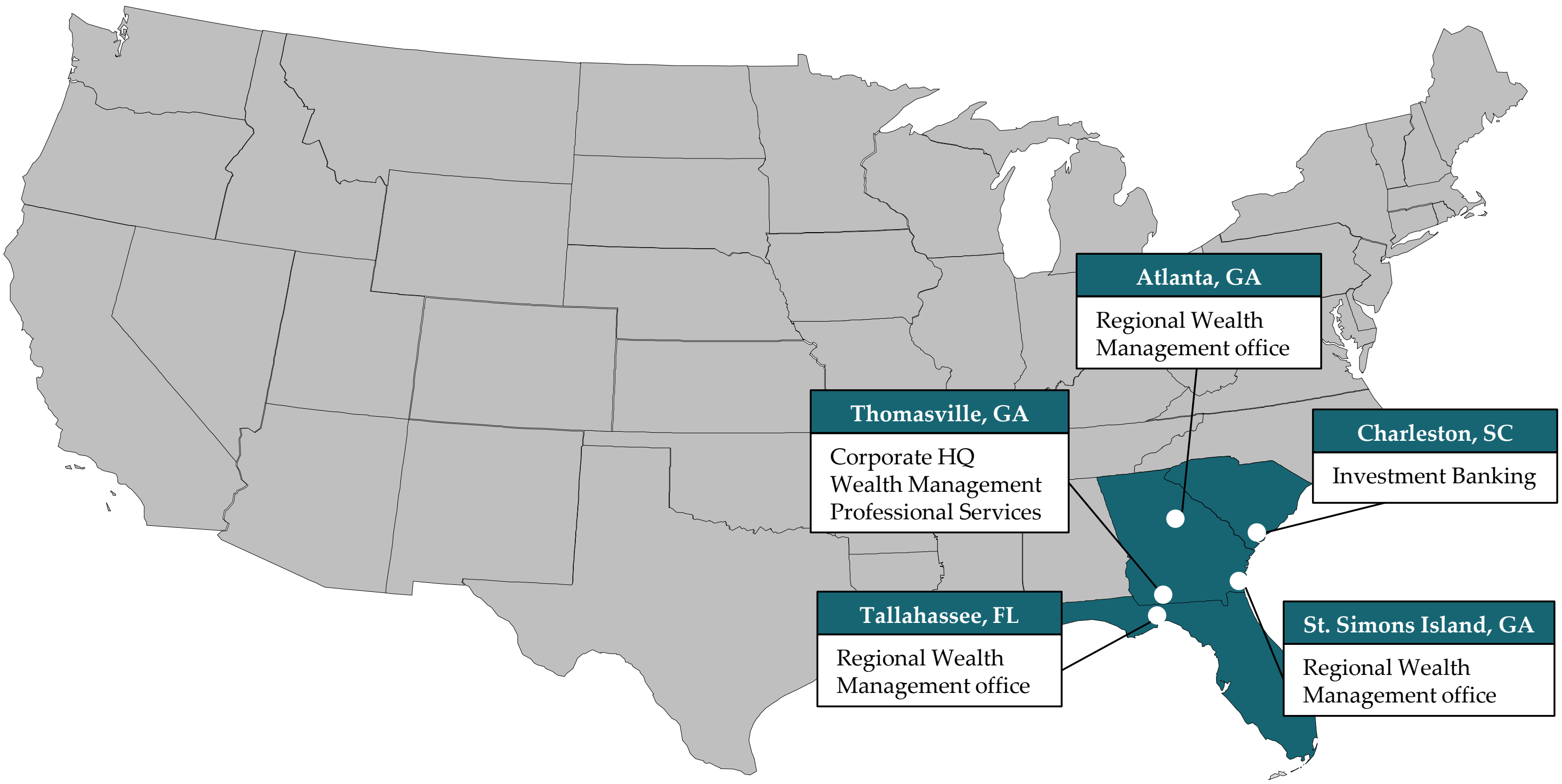

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