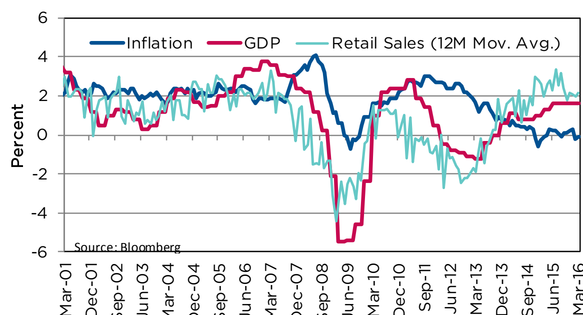
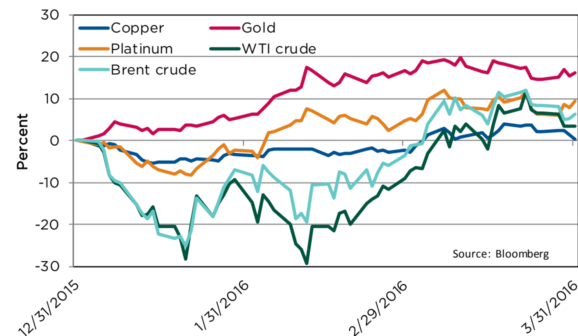
# ECONOMIC REVIEW MARCH 2016

U.S. stock markets continued their upward surge begun in mid-February, bringing large-cap stocks into positive territory. Emerging market stocks soared as central bankers pledged to continue easy-money policies. Brazilian stocks raced upward following the arrest of a former president. Brazil remained mired in a recession and political scandal emanating from bribery allegations involving Petrobras. Emerging market economies go as commodities go, and investors poured money back into commodities following reassurances from the Fed and European Central Bank (ECB) that tightening measures were not part of near-term plans. The ECB took this a step further when it stated that its bond buying program would expand into corporate bonds. With many sovereign European bond yields pushing into negative territory, the benefits of a bond purchase program tend to accrue to existing bondholders, while average savers with bank deposits are harmed. Europeans have a higher savings rate than U.S. citizens, and are not as amenable to greatly increasing discretionary purchases. As seen in the U.S., it is difficult to stimulate inflation if existing assets are bought and sold amongst large investors. An economy grows when its output of goods and services expands, but bond purchases do not directly produce this outcome. Because citizens have seen little direct improvement in economic conditions following massive central bank interventions, news of continued stimulus does not tend to change their spending habits. This June, U.K. voters will answer a referendum on whether or not to exit the European Union (EU). U.K. voters have expressed concerns over increased financial regulations and migration, and see the referendum as a way to restore sovereignty and bolster its negotiating position with other EU members.

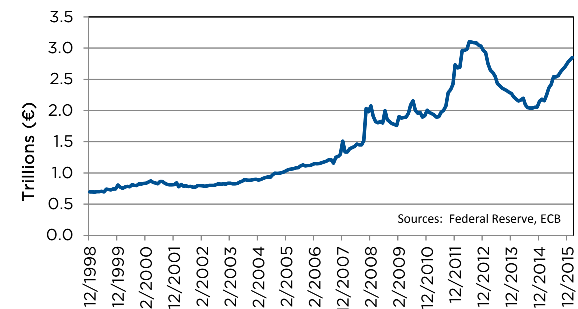
### Eurozone Growth and Spending




### Commodity Prices Rebound




### ECB Balance Sheet




### Market Returns

As of March 31, 2016

| | March | 3 Months | 1 Year |
|---|---|---|---|
| S&P 500 | 6.8% | 1.4% | 1.8% |
| Russell 1000 Value | 7.2% | 1.6% | -1.5% |
| Russell 1000 Growth | 6.7% | 0.7% | 2.5% |
| Russell 2000 | 8.0% | -1.5% | -9.8% |
| MSCI EAFE | 6.5% | -3.0% | -8.3% |
| Emerging Markets | 13.2% | 5.7% | -12.0% |
| Barclays Agg | 0.9% | 3.0% | 2.0% |
| 3-Month T-Bills | 0.0% | 0.1% | 0.1% |

The Department of Labor (DOL) is expected to release an expanded fiduciary rule for advisers on April 6. The rule proposes to expand fiduciary responsibilities to brokers and advisers who provide advice and services for IRAs, 401(k)s and other retirement accounts. The rule is intended to ensure that investors are provided with advice and investment options that are in the best interest of those investors. For a segment of the industry that derives compensation through commissions, the rule is one of the most significant in years. The rule oversees fund fees, advisory fees, payment mechanisms and account transitions for adherence to a fiduciary responsibility, which is an elevation in oversight from investor suitability. For instance, it will be more difficult for an adviser to recommend moving monies from a 401(k) to an IRA, as many 401(k) mutual fund share class fees are lower than their retail counterparts. Because fees are seen as such an important foundation in the rule, investors who have low cost funds may find advisers more reluctant to bid for their business and provide advice. Insurance companies and other sponsors of variable annuities (VA) may face the most encompassing changes. As many VAs are sold by advisers on an up-front commission basis and can package higher-fee funds within, the business will see significant operating changes. Fee-based variable annuities, which provide tax-deferral without the income stream guarantee, will be exempt from the rule. The effect on investors with fewer retirement assets is that the availability of specific, actionable advice likely will diminish. The industry is expected to move toward a more automated, or robo-system, to provide guidance for individuals. The cost of complying with the rule and lesser commissions will make many smaller relationships unprofitable for advisers who are unable to suitably adapt to the new rule. Advisers who provide investment education only are exempt from the new rule.

Federal Reserve (FOMC) Chairwoman Janet Yellen spoke at the Economic Club of New York in late March. The overall tone of the FOMC is one of caution with regard to raising interest rates. In December, the FOMC telegraphed that it would raise interest rates by 1% in 2016. After a tumultuous January for equity markets, the tone of many Fed governors backed away from a tightening to a holding stance for the near-term. While the FOMC is now expected to raise interest rates by 0.5% in 2016, many still believe that outlook may be optimistic. When the Fed lowered interest rates many years ago, its goal was to foster an environment that would lower unemployment and settle inflation at 2%. The unemployment rate currently is 5.0%, which is below historical averages and would typically be considered full employment. What has perplexed forecasters is the dearth of economic growth that has accompanied the upbeat employment data. In the U.S., construction and manufacturing output are below peak levels, and the growth in restaurant and retail sectors are not providing jobs that replace the salaries of jobs lost during the recession. Low productivity growth, over several years, has kept economic growth grounded. Despite exhibiting many similar stimulative factors as previous decades, including cheap oil, low interest rates and low inflation, strong economic growth remains elusive.

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