Mosaic Fi

Q1 2016

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Market Overview

The equity markets kicked off 2016 in a state of high volatility. The first week of the year started out as the worst start to a new year - ever. And it didn't stop there. The markets continued on a steady decline until February 11th. The good news is that from that point on, and through the remainder of the quarter, most of the US equity markets staged a full recovery. As we noted in our market update in mid-January, downswings in the markets are a natural part of a market cycle. Of course, the upswings are a lot more enjoyable, but both are necessary in a healthy market environment.

The overall US stock market ended the quarter up .97%. The small cap market was down -1.52% for the quarter. The MSCI All Country World Index (global equities) ended the quarter up .38%. The MSCI Emerging Markets Index was the best performer with a positive 5.71% return. The US REIT market once again had very strong performance ending the quarter up 5.12%.

The fixed income markets had very strong performance for the quarter, in part, thanks to Janet Yellen shifting her stance on how quickly the Fed intends to raise interest rates.

When the Fed raised rates in December for the first time in 9 years, Ms. Yellen announced the Fed's intention to raise rates four times in 2016. This was a big impetus for the equity market sell-off that occurred at the start of the year. Ms. Yellen has since backed off of that position. She has indicated that the Fed will continue to monitor the health of the global economy and financial markets, and will then respond accordingly. The markets responded very positively to this shift.

The other reason that the fixed income markets performed so well in the first quarter was the flow of funds to 'safe haven' assets and away from the volatility of the equity markets. The Barclays Aggregate Bond Index was up 3.03% and the Barclays Municipal Bond Index was up 1.67%, for the quarter. After a tough year in 2015, the Barclays US High Yield Index staged a nice rally, ending the 1st quarter up 3.35%.

So, what did all of that mean for investors' portfolios? Ironically, with all the market volatility came positive performance for a diversified portfolio. Returns ranged in the low single digits for the quarter.

For the most part, the same concerns that existed during the 2nd half of 2015 continue to be focused on in 2016. The main macro issues that the markets are reacting to are the historically low prices of oil, the economic slowdown going on in China and it's impact on the global economy, and what actions, if any, is the Federal Reserve going to do in terms of raising (or even lowering) interest rates. Interestingly, when you look at some of the economic data points for the US, we are in an ideal state in many ways.

We have extremely low interest rates, low (but not dangerously-so) inflation, low oil prices, and a solid employment picture. It doesn't sound so bad when you say it out loud.   Admittedly, this is not an ideal environment for financial institutions who need interest rates to go higher so that they can make profits on lending; or energy companies that are, in many cases, producing oil at a cost above where they are able to sell it; but, for the rest of the economy, the environment is very conducive to growth.

An important development that occurred in the wealth management industry has been the Department of Labor's ruling on how any advice can be given for retirement accounts. Historically, advisors have been able to provide investment recommendations and implementations based on two standards of care: 'fiduciary' and 'suitability'. As a fiduciary, an advisor must put the client's best interest first. With a suitability standard of care, an advisor/broker need only put the client in investments that are suitable for their situation. As one can imagine, you can drive a truck through the suitability standard. Once this ruling is fully implemented, it will dramatically change the product offerings that much of the brokerage and insurance industry can offer to clients for their retirement accounts.

At Mosaic Fi we will always act as a fiduciary in all our client relationships, in every type of account. We believe, and always have, that an alignment of interests with our clients is what will allow us to develop a healthy long-term relationship with them. This will never change.

Outlook for the rest of 2016

The US economy appears to be in decent shape. As long as the Fed continues on its path of loose monetary policy, we should continue to experience moderate growth. Inflation should continue to remain subdued, which would allow the Fed to keep interest rates low. This should bode well for the equity and credit markets.

One 'un-known' that is percolating in the global economy are the negative interest rates that many developed economies are experiencing. Central banks around the world, including Japan and the European Central Bank, are implementing negative interest rate policies. It is a counter-intuitive concept to be paying someone to lend them money. How this will ultimately play itself out is yet to be seen. We don't have any historical experience to point to for insight as to how this phenomenon will end. Stay tuned.

As always, we would love to hear from you. Please feel free to contact us at any time.

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