Mosaic Fi

Q2 2016

Sophisticated planning for your unique path

Clarity…Courage…Commitment

Market Overview

What had been a mostly calm and quiet 2nd quarter ended on a roller-coaster ride leading into the vote by Britain on June 23rd to leave the EU, and it's aftermath. However, once the dust settled, the markets fully recovered as investors digested what the potential impact that 'Brexit' would have on global economic growth. While markets typically react negatively to uncertainty, it is difficult to quantify what the full impact of this decision will be for quite some time. So, after a lot of noise in the markets, the conclusion was that the 'Brexit' unknown is not worth worrying about at this point. As we moved into the 3rd quarter, the markets have regained their momentum and continue on the same trajectory that they were on at the beginning of the 2nd quarter, which has been generally positive market performance with a solid U.S. economic environment as the back-drop.

Over the past year we have experienced several bouts of high volatility.

Last summer we were dealing with concerns over the potential default on Greek government bonds and the slowdown in economic growth in China; in January and February of this year the markets were reacting to the first hike in short-term interest rates by the Federal Reserve in over 9 years; and last month we were faced with the upheaval caused by the vote and the aftermath of the 'Brexit' decision. It is interesting to note that all of these 'triggers' have been government action-induced events with more macro-economic implications.

Equity Markets

The overall U.S. stock market was up 2.63% for the 2nd quarter and up over 3.5% for the first half of 2016. The International Developed markets were down by 1.05% for the quarter as they continue to underperform the U.S. market. They have returned a negative 4.42% so far for 2016. The Emerging Markets index was up .66% for the quarter and, despite all the volatility, up 6.41 % for 2016. The U.S. REIT market continues to be the star performer, ending the quarter up 5.42% and up 10.82% for 2016.

Fixed Income Markets

Just when we thought interest rates couldn't go any lower, they did. The 10-year U.S. Treasury yield started the 2nd quarter at 1.78% and ended the 2nd quarter at 1.49%. This decline in interest rates made for strong performance in the fixed income markets overall for both the 2nd quarter and the first half of 2016. The overall U.S. bond market posted returns of almost 2 1/4% for the quarter and up over 5 1/4% for the year-to-date.

We are experiencing a decline in interest rates while there is on-going speculation of when the Federal Reserve is going to raise short-term interest rates. Why are interest rates continuing to decline when the expectation is that they will be going up any day now? The main culprit to this contradiction is related to the level of interest rates around the world. While it may seem that U.S. interest rates are extremely low, much of the developed world is dealing with negative interest rates. How and why can that be? Why would an investor choose to buy a bond that guarantees a negative return if they hold it to maturity? There are two answers to this question: The first one lies in the second part of that question--if they hold it to maturity. Some investors are betting that interest rates will go even more negative, which counter-intuitively provides a positive return to that investor because the price of their bond will go up in that scenario. The other answer is that there are certain entities (i.e. pensions, governments, etc.) that simply have cash that needs to be invested in government bonds - regardless of the yield that they offer.

So, what does all of this mean for investor portfolios? For a fully diversified portfolio, investors had another quarter of positive returns in the low single digits. This brings performance for 2016 moving closer to mid-single digits. For fixed income only investors, with the strength in the bond markets this year, performance was also in the low single digits for the 2nd quarter and in the mid-single digits for the first half of 2016.

Looking Ahead…

As we suggested in our last letter, the U.S. economy appears to be in decent shape. The U.S. consumer and the housing market continue to be the forces that are keeping the economy afloat. In order for us to move into a higher growth environment we will need for business capital spending to take hold. We have not yet seen that.

It is hard to predict what actions the Federal Reserve will take over the next 6 to 9 months. The Fed has been acting in a very data and market-dependent way. And the data and market indicators keep changing from month-to-month. At some point the Federal Reserve will need to normalize interest rates, but given its (re)actions it is hard to say just when that will be.

How the markets will react to these economic and Central Bank developments is difficult to predict. When working with our clients we focus on their long-term goals when investing their assets; aware of what is going on in the markets, but focused on the strategic objective of helping each client achieve their (personal) goals.

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

Mosaic Fi
250 Parkway Drive, Suite 150
Lincolnshire, Illinois 60069

Please feel free to contact us at:
Main: (773) 425-6790
Email: jenifer@mosaicfi.com
Visit us at: www.MosaicFi.com

A Registered Investment Advisor, Mosaic Fi is an independent, privately owned company. Mosaic is a fee-only advisor. Mosaic does not sell any financial products or receive any commissions.