Weekly Market Commentary
April 4, 2016

The Markets

It's like déjà vu all over again!

This wasn't the first quarter, or even the first year, that bond markets have not performed in the way Wall Street strategists have expected.

During 2014, bond yields were expected to rise. They did not.

During 2015, bonds were predicted to finish the year yielding about 2.8 percent to 3.3 percent. On December 31, they were at about 2.3 percent.

During the first quarter of 2016, despite persistent predictions yields would move higher after the Federal Reserve's rate hike, yields fell and bond values increased. Government bonds delivered the strongest returns gaining 3.7 percent for the quarter, according to *Bloomberg*.

There is an inverse relationship between interest rates and bond prices. When rates move higher, bond prices move lower, and the value of investors' holdings may fall. When rates move lower, bond prices move higher, and the value of investors' holdings may increase.

The current bull market in bonds started in 1982. During January of that year, the 10-year U.S. Treasury yield was about 14.6 percent. Since then, rates on Treasuries have declined and investors have reaped the rewards of steadily rising bond values.

The Federal Reserve began tightening monetary policy in December 2015 by raising the fed funds rate. Late in the month, the rate on benchmark 10-year Treasury bonds reached about 2.3 percent. However, after central banks in Europe and Japan loosened their monetary policies, yields on Treasuries moved lower. By the end of the first quarter of 2016, they were at about 1.8 percent.

Overseas, the picture was a bit more complicated. An expert cited by *Bloomberg* explained, "Of the five countries that performed best – Germany, Belgium, Denmark, Japan, and the United Kingdom – the two-year debt of all but the United Kingdom has negative yields."

When bonds have negative yields, investors are paying to lend their money. Why would anyone do that? *The Economist* reported there are three types of investors who buy bonds when yields are negative: 1) central banks and other entities that must own government bonds, 2) investors who expect to make money when a country's currency gains value, and 3) investors who would rather suffer a small loss in government bonds than risk a bigger loss investing in something else.

That something else might have been a stock market during the first month or so of the quarter. Globally, stocks underperformed bonds, returning 0.4 percent for the first quarter of 2016. However, the end-of-quarter return doesn't really tell the whole story. Fears of global recession, among other things, produced a wild ride for stock market investors during the first months of the

year. Worldwide, stocks were down about 11.3 percent through mid-February, according to *Barron's*, and then gained 13.2 percent to end the quarter slightly higher, overall.

The United States delivered strong returns for the period. *Barron's* reported:

> "Still, the United States fared a good deal better than other developed markets, with Europe down 2.4 percent, the United Kingdom off 2.3 percent, and Japan worse by 6.4 percent – a surprise because overseas markets were touted as the places to be. That is, except for emerging markets; but their results also confounded the seers, as they returned a robust 5.8 percent for the quarter."

At the end of last week, the *Bureau of Labor Statistics'* monthly jobs report showed more people were looking for jobs, increases in employment exceeded analysts' expectations, and average hourly earnings had moved higher. These were positive signs for the U.S. economy.

Data as of 4/1/16	**1-Week**	**Y-T-D**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Standard & Poor's 500 (Domestic Stocks)	1.8%	1.4%	0.6%	9.9%	9.2%	4.8%
Dow Jones Global ex-U.S.	0.3	-2.8	-12.5	-1.8	-2.2	-0.6
10-year Treasury Note (Yield Only)	1.8	NA	1.9	1.8	3.5	4.9
Gold (per ounce)	-0.6	14.3	1.4	-8.5	-3.1	7.5
Bloomberg Commodity Index	-1.7	-0.8	-22.0	-17.0	-14.4	-7.3
DJ Equity All REIT Total Return Index	3.3	6.1	5.0	9.9	11.5	6.7

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

HOW DO INVESTORS FEEL ABOUT STOCK MARKETS? The American Association of Individual Investors (AAII) surveys investors weekly about whether they are bullish, bearish, or neutral on stock markets for the next six months. Last week, the majority of participants indicated they were neutral. There was less bullish sentiment than the previous week, but bulls maintained a slight edge over bears:

- Bullish: 27.2 percent
- Neutral: 47.1 percent
- Bearish: 25.8 percent

The AAII also asked whether participants were better off, worse off, or as well off as they had been eight years ago (early in the Great Recession). More than one-half (54 percent) said they were better off. The remainder was almost evenly split. Twenty-four percent indicated they were not better off, and 23 percent said they were as well off.

Weekly Focus – Think About It

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had

everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way…"

--Charles Dickens, A Tale of Two Cities

Best Regards,

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* You cannot invest directly in an index.
* Consult your financial professional before making any investment decision.
* Stock investing involves risk including loss of principal.

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