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summaries

SIGMA INVESTMENT COUNSELORS

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Market Commentary

Three months ago we compared the first quarter of 2016 to a roller coaster ride. From the end of 2015 through the first half of February we saw a 10%+ decline in the domestic equity markets, only to see those losses fully erased by the end of March. Well, that comparison held true again as markets continued a steady climb through much of the second quarter of 2016 until the historic vote by the United Kingdom to leave the European Union caused markets to drop sharply over the subsequent 2 trading days. The quick, sharp fall in markets preceded another speedy rebound prior to the end the second quarter. Markets closed out the second quarter with mostly positive results with the exception of developed international markets.

Benchmark Returns As of 6/30/2016	Q1 2016	Q2 2016	YTD
Domestic Equities			
S&P 500 Large Cap	1.38%	2.46%	3.84%
S&P 400 Mid Cap	-2.18%	3.99%	7.93%
S&P 600 Small Cap	-1.97%	3.48%	6.23%
International Equities			
MSCI EAFE Dev Int'l	-0.81%	-1.46%	-4.42%
MSCI Emerging	-14.92%	0.66%	6.41%
Bonds			
Barclays US Agg Bond	0.55%	2.21%	5.31%

The talks of countries exiting the European Union have been taking place for some time and this past quarter will be remembered as one for the ages as the UK voters took action. Prior to the UK vote in late June the markets were moving along at a status quo pace.

The energy sector experienced some much needed relief from the rebound in the price of crude oil as West Texas Intermediate Crude moved from roughly $36 per barrel in the beginning of the quarter to end June 2016 near $48 per barrel. Commodities prices have also rebounded nicely as the price of gold ascended from roughly $1,220 per ounce to $1,320 per ounce over the second quarter. While these sectors remain volatile, the rebound in prices has helped the respective industries and their investors.

Overall, first quarter earnings results came in better than analyst expectations. We will be watching results closely during this next round of earnings reports. Corporations are strong with solid balance sheets, liquid cash, and a low cost of capital. Slow growth never feels good as an investor, but slow and steady often wins the race. Housing appears to be on solid footing, inflation remains tame, and first quarter GDP was revised up to 0.8% from 0.5%. All of these indicators have instilled confidence in the economy and the University of Michigan Consumer Sentiment Index increased to 92.4 from 91.5 over the quarter.

As mentioned, in late June, UK voters decided to leave the European Union in a historic decision for which more than 30 million people (72% turnout)

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voted to leave the EU, winning by a 4% margin (52% leave to 48% stay). Global equity markets (per the MSCI All Country World Index) fell nearly 7% from Friday, June 24th through Monday, June 27th. The following three trading sessions brought a collective recovery of more than 5%. While it was pleasing to see the resilience of equity markets from the sharp selloff, it is important to acknowledge this decision as a seminal moment for the UK and possibly the future of the EU. The negotiations will be watched closely over the next few years by investors, member countries, and the rest of the world.

Fear and uncertainty have led to strong demand for safe haven investments like government bonds. The yield on 10-year US government debt moved lower to end the quarter at 1.46%. For comparison purposes, the German 10-year bond yielded -0.13%, the Japanese 10-year bond yielded -0.23%, and the Swiss 10-year bond was at -0.57%. These markets remind us of the importance investors place on safety and liquidity! When one thinks that yields cannot move lower, they do. The United States appears well positioned to benefit from some of these global uncertainties. While low by historical standards, the 10-year US Treasury yield is relatively attractive compared to other developed nations.

International markets have been getting all the negative attention and our underweighting to this asset class has worked well for portfolios. Domestic markets remain strong with medium sized companies (market capitalization – number of shares outstanding multiplied by the share price) leading the way for the quarter and year-to-date. Diversification will always be a tenet of our investment approach. It is very difficult to consistently predict out performers over short time periods, but our discipline and attention to detail as it pertains to valuation, trends, and reversion to the mean will continue to guide our actions.

Market volatility is likely to persist as the world attempts to quantify the future of the European Union and the impact on global financial markets. Equity investing requires tempered optimism and discipline to take advantage of price swings to achieve long-term goals.

Thanks again for your confidence and trust in Sigma Investment Counselors.

Anthony Basalla