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# Q3 2016 – Market Overview Newsletter

## Economic Update

Nearly everything was going against U.S. stocks in the 3rd Quarter: aftershocks from the Brexit vote in the U.K.; worries about rising interest rates and the end of the Federal Reserve's loose monetary policy; and growing uncertainty about the upcoming presidential election. But the major stock market indexes shrugged off these concerns and posted healthy gains for the quarter. The S&P 500 Index rose to another record high in August on its way to a 3.8% gain for Q3. Year-to-date through September, the benchmark U.S. stock index was up nearly 8%.

But some of the best equity performances were found beyond the universe of well-known large-cap companies. Small-cap stocks were strong during the 3rd Quarter, as indicated by the 8% three-month return for the Russell 2000 Index. Overseas markets also performed well. Advanced markets such as Germany, Japan and the U.K. and emerging markets such as Brazil all outperformed the S&P 500 Index for the quarter. Among equity market sectors, technology stocks led the way, rising 12% for the quarter and helping the tech-heavy Nasdaq Composite Index to a 9% return. All other equity market sectors were left in the dust: industrial and financial stocks gained just 4% for the quarter, while utility and telecom stocks declined over 5%. These stocks were hurt as investors began to turn away from dividend-producing stocks in anticipation of rising interest rates.

The Federal Reserve passed on hiking the Fed funds target rate at their September meeting. The next Fed meeting will be held just before Election Day, so expectations are very low for a rate hike at that time. The Fed seems to be already fending off accusations of political bias during the campaign season, so they won't likely want to add any fuel to that fire. Instead, all eyes will be on the Fed's December 14 meeting, when the markets are anticipating a 50/50 likelihood of a quarter-point rate increase.

It seems that in the Fed's view, the U.S. economy appears strong enough to sustain higher interest rates at this point. Economic data released during the 3rd Quarter has been consistent with trends throughout the past year: job growth has remained fairly robust; wages are rising at a consistent rate; core inflation sits at the Fed's target rate of around 2%, although overall inflation (including volatile food and energy prices) hovers lower around 1%.

The one sticking point has been U.S. economic growth. The pace of economic growth, as measured by quarterly changes in the annualized Gross Domestic Product rate, has declined for five consecutive quarters. Annual economic growth of 1.3% for the 2nd Quarter of 2016 was the slowest pace since the 2nd Quarter of 2013. The Fed stated it will remain "data dependent" in deciding on whether to raise rates at future meetings. Barring a significant decline in GDP for Q3, it appears the current sluggish pace of economic growth is enough to justify a modest rate hike. Yields on longer-term bond bonds rose in anticipation of the Fed's next move, with the 10-year Treasury note rate ending September just below 1.6%, up from 1.47% at the beginning of the 3rd Quarter.

But all of these other factors will likely take a back seat to the presidential election in the upcoming quarter. The current campaign season has been the most contentious in recent history, with both candidates locked in a battle over who can be the least-liked presidential contender in the minds of voters. As of this writing, polls indicate the contest as a toss-up. The subsequent rise in uncertainty has placed the markets on edge.

If there's one thing people know about this campaign, it's that anything can happen. That means emotions may swing from one extreme to the next in just a few days. For investors, it will be important to keep calm and maintain discipline in the weeks leading up to the election.

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For more market details from the third quarter, see the "Capital Analysts Q4 2015 Market Review" in the commentaries page on our website at www.langdonshaw.com/commentaries.

## Timely Reminders

### - IRA Required Minimum Distributions (RMDs)

Those with IRA accounts are required to take a distribution each year beginning in the year they turn 70½. RMDs must be taken by the last day of the calendar year (12/31/2016.) We monitor these requirements for our clients and will be in touch between now and the end of the year if you qualify and have not yet taken your RMD. Please contact us if you have any questions.

### - College Choice 529 Indiana State Tax Credit

The Indiana State 529 plan, College Choice offers an annual state tax credit for 20% of contributions up to $5,000 ($1,000 tax credit) per tax filing. If you have a College Choice 529 account (or are thinking to start one) and wish to make a contribution, the deadline for the 2016 Indiana tax credit is 12/31/2016. If sent in the mail, contributions need to be post-marked by that date. Please contact our office if you would like any assistance or have questions about the College Choice 529 plan or the Indiana tax credit.

### - Charitable Gifting

Gifts of highly appreciated stock can be a great way to make charitable contributions. Those who wish to do so this year need to make their stock donations by 12/31/2016 to qualify for the 2015 tax deduction.

Making a charitable gift directly from an IRA is another tax advantaged method of gifting. Gifts directly from an IRA are excluded from taxable income.

Please contact our office with any questions you may have.

Depending upon the laws of the home state of the customer or designated beneficiary, favorable state tax treatment or other benefits offered by such home state for investing in 529 college savings plans may be available only if the customer invests in the home state's 529 college savings plan. Consult with your financial, tax or other adviser to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You may also wish to contact your home state or any other 529 college savings plan to learn more about the features, benefits and limitations of that state's 529 college savings plan.

For more complete information, including a description of fees, expenses and risks, see the offering statement or program description.

Sources:
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