Economic Review

The dovish tone at the March FOMC, and Fed Chair Yellen's subsequent remarks, seem to indicate that the Federal Reserve is likely to remain cautious and accommodative for some time. According to the Fed, economic activity has been expanding at a moderate pace despite the global economic and financial developments of recent months. Household spending has been increasing at a moderate rate, the housing sector has improved further, and a range of recent indicators, including strong job gains, points to additional strengthening of the labor market. Inflation continues to run below the Committee's 2% longer-run objective, partly reflecting declines in energy prices and non-energy imports.

Real gross domestic product (GDP) increased at an annual rate of 1.4% in the fourth quarter of 2015, according to the Bureau of Economic Analysis. This follows increases of 2% in the third quarter, and 3.9% in the second quarter. The gain primarily reflected positive contributions from personal consumption expenditures (PCE), residential fixed investment, and federal government spending.

Economic activity in the manufacturing sector expanded in March, indicating growth in manufacturing for the first time since August 2015, according to the nation's supply executives in the latest Manufacturing ISM Report On Business.

The U.S. Bureau of Labor Statistics reported that the unemployment rate (5%) and the number of unemployed persons (8.0 million) were little changed in March. Both measures have shown little movement since last August. The civilian labor force participation rate (63%) and the employment-population ratio (59.9%) were also little changed. The number of long-term unemployed (those jobless for 27 weeks or more) stood at 2.2 million and has shown little movement since June. These individuals account for 27.6% of the unemployed.

Increased consumer optimism about personal finances (the best in a decade) was offset by expectations of slower economic growth and higher prices, keeping the overall level of consumer confidence largely unchanged over the past three quarters according to the latest release of the University of Michigan Surveys of Consumers.

Financial Markets Review: Domestic Stock Market

It was a horrible start to the year, highlighted by the worst first-week in history for the S&P 500, and a 10.5% correction in the index by February 11. The markets subsequently recovered after oil bottomed out, the ECB cut rates into negative territory and the Fed lowered its rate hike outlook. In the end, the S&P 500 advanced 0.77% excluding dividends to 2,059.74. Still, the index is 3.34% below the record high of $2,130.82 set on May 21, 2015. The Dow Jones Industrial Average gained 1.49% to 17,685.09 while the NASDAQ slid 2.75% to 4,869.85.

Sector returns were mixed with telecom services leading the way, rocketing 16.61% for the quarter, followed by utilities, soaring 15.56%. Laggards included health care losing 5.50%, and financials down 5.06%.

Mid- and small-cap stocks fared better than large-caps in the quarter, with the S&P Midcap 400 Index rising 3.78% and the S&P SmallCap 600 Index ahead 2.66%.

With respect to style, value outperformed growth for the three-month period according to the Russell indexes.

The top-performing stocks in the Dow Jones Industrial Average for the first quarter were Verizon (+17.0%), Caterpillar (+12.6%), and Wal-Mart Stores (+11.7%). Detractors for the Dow included Goldman Sachs (-12.9%), Boeing (-12.2%), and American Express (-11.7%).

The best performers for the first quarter among the Dow Jones industry groups were gold mining (+50.2%), platinum & precious metals (+46.1%), and diamonds & gemstones (+26.5%). The worst performers were business training & employment agencies (-16.4%), biotechnology (-15.1%) and automobiles (-10.1%).

The price-earnings level of the S&P 500 is above historical valuation averages at 22.46 (per Barron's) and is 15.5% higher than a year ago.

Looking forward to the second quarter of 2016, a long list of forces that could slow the markets include the timing of the Fed's next interest rate hike, sluggish corporate profit growth, the unpredictable US presidential election, geopolitical threats including the re-emergence of terrorism, commodity volatility, dollar strength, negative interest rates, market valuations and global growth concerns.

Given a still-growing US economy, we remind investors to keep invested, don't try to time the market, periodically rebalance and diversify broadly to dampen volatility.

	Total Returns (03/31/16)			Annualized Returns (03/31/16)		
Category/Style	1st Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500 (w/ dividends)	1.35	1.35	1.78	11.82	11.58	7.01
Russell 1000 Large Cap	1.17	1.17	0.50	11.52	11.35	7.06
Russell 1000 Growth	0.74	0.74	2.52	13.61	12.38	8.28
Russell 1000 Value	1.64	1.64	-1.54	9.38	10.25	5.72
Russell 2000 Small Cap	-1.52	-1.52	-9.76	6.84	7.20	5.26
Russell 2000 Growth	-4.68	-4.68	-11.84	7.91	7.70	6.00
Russell 2000 Value	1.70	1.70	-7.72	5.73	6.67	4.42

Source: Frank Russell Company, Standard and Poor's

International Stock Markets

The MSCI EAFE Index of developed markets dropped 3.01% for the first quarter. Emerging markets, on-the-other-hand, benefited from recovering commodity prices and easing monetary policy in the quarter, rebounding 5.71% as measured by the MSCI Emerging Markets Index. Global growth concerns, a strong dollar and volatile commodities prices still weigh on the emerging markets outlook going forward. Emerging market sovereign debt was downgraded in over 10 emerging market countries in the first quarter. Standard & Poor's cut its outlook for the Chinese government's credit rating in late March, following Moody's lowered outlook on China's debt. Emerging market stocks have underperformed developed markets for the past five years, but have outperformed them over the past ten years. Frontier markets lost 0.94% for the quarter and have posted a negative return for the past ten years.

Major international markets were mostly lower in the first quarter. The Stoxx Europe 600 Index fell 7.74% to 337.54. Germany's DAX Index declined 7.24% to 9,965.51, and France's CAC-40 Index receded 5.44% to 4,385.06. The UK London FTSE 100 Index closed at 6,174.90, dipping 1.08%.

In Asia, the Dow Jones Asia-Pacific TSM Index declined 2.25%, to finish the quarter at 1,358.46. Japan's Nikkei stock average sank 11.95% to 16,758.67, and China's Shanghai Composite Index cratered 15.12% to 3,003.92.

The Americas fared better than the Eurozone and Asia, with the DJ Americas index ahead1.44% to 494.27. Brazil's Sao Paulo Bovespa index leaped 15.47% to 50,055.27, Canada's S&R/TSX composite index increased 3.72% to 13,494.36, and Mexico's IPC All-Share index ended the quarter at 42,977.50 up 6.76%.

The dollar weakened 6.42% against the Yen for the quarter, with the Yen ending the period at 112.58 (JPY/USD). The Dollar also fell 4.57% versus the Euro ending the quarter at 1.1381 (USD/EUR).

World Bond Markets

Bond market returns moved higher in the first quarter. The Barclays U.S. Aggregate Bond Index increased 3.03%, the Barclays Municipal Index was up 1.67%, and the Barclays U.S. Treasury TIPS Index jumped 4.46%. The U.S. 10-year note yield fell precipitously to 1.78%, a drop of 49 basis points (21.51%), at the quarter's close. Yields for money funds inched higher, with the 7-day yield on retail money funds at 0.11% according to iMoneyNet.

Yields on foreign bonds also moved much lower in the first quarter, with the 10-year bond yielding 1.45% in the United Kingdom, 1.25% in Canada, and 0.19% in Germany. The Japan 10-year bond went negative in the first quarter, ending at -0.11%.

Commodities

Commodities reversed course in the first quarter posting a 0.42% gain after a crashing 24.66% in 2015, as measured by the Bloomberg Commodity Index. Gold had a spectacular first quarter, vaulting 16.40% to $1,234.20 per troy oz. for its best quarterly showing in 30 years. Crude oil rose 3.51% to $38.34 per barrel. Oil has traded as high as $61.43 and low as $26.21 over the past twelve months. Natural Gas plummeted 16.17% to $1.959/MMBtu.

Mutual Funds/Exchange-Traded Funds

Bonds outperformed stocks in the first quarter with intermediate taxable bonds up 2.48% compared to 0.29% for large cap stocks.

The March 30 release from the Investment Company Institute showed that the combined assets of the nation's mutual funds fell $1.2 trillion (7.26%) over the last twelve months to $15.1 trillion. Net new cash flow was $44.0 billion in February, following an outflow of $41 billion in January. Exchange-traded fund assets slipped $51 billion (2.48%) year-over-year to $2.0 trillion in total. The ETF ranks continued to proliferate, with the addition of 186 funds over the past year to 1,609 representing an increase of 13.07%.

Mutual Funds Overview As of March 31, 2016

	Total Returns			Annualized Returns		
Category	1st Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Intermed.	1.41	1.41	3.15	2.71	4.73	3.98
Short Taxable Bond	0.99	0.99	0.38	0.74	1.54	2.93
Intermed. Taxable Bond	2.48	2.48	0.64	1.90	3.55	4.53
Long Taxable Bond	6.19	6.19	0.47	4.11	7.29	7.02
High Yield Bond	2.12	2.12	-4.18	1.06	3.84	5.55
World Bond	4.25	4.25	0.46	0.11	1.85	4.30
Small-Cap Stock	0.55	0.55	-8.11	6.42	6.76	5.17
Mid-Cap Stock	1.25	1.25	-6.71	7.79	7.77	5.94
Large-Cap Stock	0.29	0.29	-1.97	9.63	9.62	6.00
World Stock	0.07	0.07	-4.50	5.67	5.49	4.14
Foreign Stock	-1.97	-1.97	-7.96	1.74	1.63	1.60
Natural Resources	5.31	5.31	-17.37	-8.05	-7.21	-0.84
Real Estate	4.68	4.68	2.66	9.43	10.78	5.73

Source: Morningstar Category Returns, Morningstar, Inc.

Important definitions and disclosures

Gross Domestic Product (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The **Federal Open Market Committee** (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). Real Gross Domestic Product (real GDP) is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate both nationally as well as in 20 metropolitan regions. **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. The **S&P SmallCap 600 Index** (S&P600) covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. The **S&P MidCap 400 Index** (S&P400) is a stock market index from S&P Dow Jones Indices. The index serves as a barometer for the US mid-cap equities sector and is the most widely followed mid-cap index in existence. To be included in the index, a stock must have a total market capitalization that ranges from roughly $750 million to $3.3 billion. The **Russell 1000 Index** is a capitalization-weighted price-only index which is comprised of 1000 of the largest capitalized US-domiciled companies whose common stock trade in the United States on the New York Stock Exchange, American Stock Exchange and NASDAQ which are included in the Russell 3000 Index. This large cap market-oriented Index is highly correlated with the S&P 500 Index. **Russell 2000 Index** is a market-value-weighted index representing the 2,000 smallest companies in the Russell 3000 index, representative of the US small capitalization securities market. **Price-earnings (P/E) ratio** is a measure of valuation for a company or a collection of companies such as an index; it is calculated by dividing the market value per share by the earnings per share. **Morgan Stanley Capital International Index** (MSCI) EAFE is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. The **MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. **International investing** involves special risks, including the possibility of substantial volatility due to currency fluctuation and political uncertainties. The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The **CAC 40 Index** is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse (now Euronext Paris). The **DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The **FTSE 100** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The **DJ Asia-Pacific Index** represents the leading stocks by dividend yield traded in the Asia/Pacific region. The **Nikkei Index** is a stock market index for the Tokyo Stock Exchange (TSE). The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The **MSCI Frontier Markets Indexes** provide broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. **Barclays Aggregate Bond Index** is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. The **Barclays Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital US Government Inflation-Linked Bond Index** (US TIPS) measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. The **S&P Goldman Sachs Commodity Index** (S&P GSCI) serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. It is a tradable index that is readily available to market participants of the Chicago Mercantile Exchange. The **Investment Company Institute** (ICI) is the national trade association of US investment companies, which includes mutual funds, closed-end funds, exchange-traded funds and unit investment trusts. An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund. An exchange-traded fund (**ETF**) is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Indexes are unmanaged and investors cannot invest directly in an index.

Morningstar Category Returns are composed of the average return for the funds in each Morningstar category over the indicated time period. Categories are defined by Morningstar based on holdings statistics. The category returns are adjusted for survivorship bias, meaning they include all investments even if liquidated, merged or otherwise now obsolete. The returns also include funds that were in a given Morningstar category, but have since changed to another category.

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