TRUSTCORE®

Market Commentary
Third Quarter 2016

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Relative Market Performance

	3Q	YTD	1YR
Dow Jones Industrial Average (U.S. Large Stocks)	2.78	7.21	15.46
Standard & Poor's 500 (U.S. Large Stocks)	3.85	7.84	15.43
Wilshire 5000 (U.S. Stocks)	4.29	8.44	15.35
MSCI EAFE (Foreign Stocks)	6.43	1.73	6.52
MSCI EM (Emerging Market Stocks)	9.03	16.02	16.78
MSCI ACWI (World Stocks)	5.30	6.60	11.96
Barclays Capital U.S. Agg. Index (U.S. Bonds)	0.46	5.80	5.19

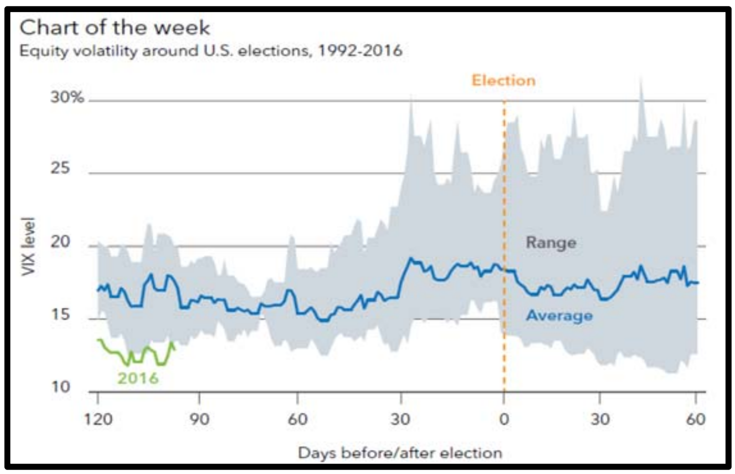
Source: Morningstar

KEY POINTS

- Anticipate additional market volatility as we near the election
- A dose of fiscal stimulus may be a needed boost for some advanced economies
- Moderate global growth expectations

Election

Election Day in the U.S. is quickly approaching and the candidates could not be more polarizing. Many voters remain undecided. Some are expected to lean towards a candidate purely because they do not want the other to win. From an equity perspective, the general consensus is that an ideal outcome would be something close to the status quo; a divided government that limits change is more supportive to the market. As we draw closer to the election, history has shown that equity markets may begin to exhibit increased volatility, as seen in the chart on the right. In 2016, volatility has trended below average, a byproduct of years of easy monetary policy from the Federal Reserve. Entering a historically more volatile period at below average rates may leave an investor with the potential to feel spikes more than normal.

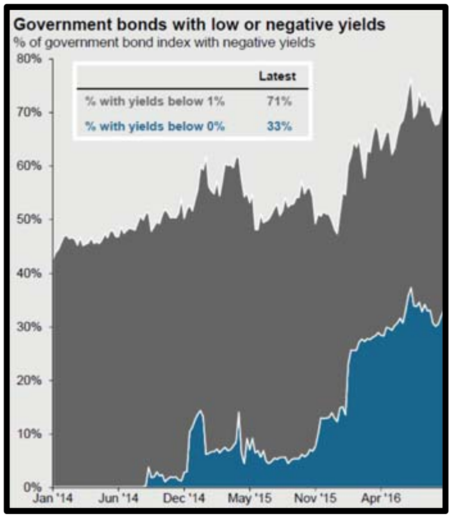


Source: BlackRock Investment Institute

From an investment point-of-view, certain sectors may experience additional volatility. Areas of healthcare, specifically those under pressure because of drug pricing, have been targeted by both candidates; whereas, financials and energy may either benefit or be at risk depending on the outcome of the election. One common theme of support from both candidates has been addressing America’s aging infrastructure. Any movement on this campaign promise could be supportive to many sectors. How to fund the trillions in needed improvements will be a political headwind, but could provide a dose of fiscal stimulus that would benefit the economy.

Focusing more globally, there are a number of elections coming over the next couple of years that bear watching. It is no secret that populist sentiment has been on the rise. A prime example was the June vote by Britain to leave the European Union. Years of economic stagnation have incited calls for change. Some fear negative sentiment toward immigration and trade, spread under the banner of protectionism, may counteract efforts to stimulate economic growth.

Interest Rates



Source: J.P. Morgan Asset Management

Global central banks are struggling to maintain credibility as they run out of monetary levers to pull. The current state of easing has persisted for years, but its efficacy may be waning. The Bank of Japan is now targeting a 0% rate on its 10 year government bonds; meanwhile, 1/3rd of global bonds are trading at yields below 0%. An environment where investors are forced into negative yielding assets as the safest place to hold cash is not sustainable. Easy money policies have not translated into the results central banks would have hoped. In the U.S. alone, the amount of cash on the sidelines as a percent of GDP is the highest it has ever been. The prevailing view is this is not a productive use of assets from an economic prospective. Economic growth has been stagnant and the lack of productivity and investment in new capital has been lacking post-recession, a theme echoed across many developed economies. The next step for many economies may be a dose of fiscal stimulus.

Global Growth Prospects

The outlook for global growth remains subdued. The U.S. has faced a headwind of weak business investment and a struggling energy sector. Looking forward, growth expectations remain moderate. Over seven years into expansion, the U.S. credit cycle has become more stretched and corporate profits have weakened in the near-term. U.S. growth near 1.5% to 2.0% appears realistic for the remainder of year given the current state of affairs. Any boost to growth from the next president's infrastructure agenda likely would not impact growth until well into next year or probably beyond.

Within continental Europe, the pace of growth should be similar to that of the U.S., though Britain may experience a different path. The decision by the British voters to leave the European Union will likely have a negative growth impact in the near-term. Already, the British pound has seen a steady decline. With the formal withdrawal negotiations yet to begin, many are worried that London may become less competitive as companies look to potentially relocate inside the European Union. Unfortunately, it may be years before voters realize the outcome of their decision.

Among emerging markets, China seems to drive the outlook, as they account for 1/3rd of global growth. As China migrates from its old industrial economy to a new consumer driven one, many believe its growth will glide lower over time; to-date it remains strong. More generally, those economies weakened by the trough in commodity prices may begin to find relief in the coming year as we have seen more recent strength across the broad commodity complex.

In volatile markets investors should remain focused on their long-term objectives. Asset allocation strategies developed for a portfolio provide a roadmap to follow in times of duress. Steps may need to be taken to ensure capital preservation, but must be weighed against their potential impact on long-term performance. Implementing a disciplined, strategic approach with portfolio allocation across varying asset classes is an important element of a successful investment strategy. That's why at TrustCore, we believe in creating a customized, well-diversified portfolio to help you meet your long-term financial goals.