INVESTMENT UPDATE
NEWSLETTER

ALLEN TRUST
COMPANY

APRIL 13, 2016

William A. Harris, CFA
Chief Investment Officer

First Quarter 2016: Dip and Bounce

The US stock market entered 2016 in a spasm of misery, its worst start to a year ever, but by mid-February had turned on its heel and marched higher. It closed the quarter little troubled, and with a slight gain to boot.

S&P 500: A Volatile First Quarter

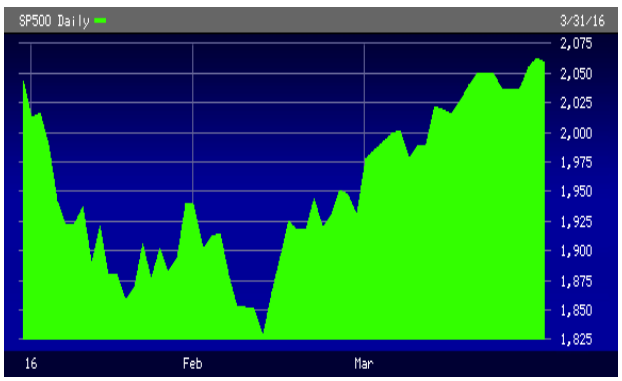

Chart Source: BigCharts.com

For us, it worked out well both through the dip and the bounce, with our stock allocations losing less in the first leg and then rising nicely through the second leg. Value tilts that hurt us last year proved a big benefit – as expected, defense paid off when needed – and lower stock prices early on enabled us to put money to work at better levels than seen in too long.

The S&P 500 dropped into "correction" territory by losing more than -10% from its all-time highs, but then recovered for a +1.4% total return on the quarter. Developed market foreign stocks slipped, but only barely, with the MSCI World Ex-USA off -0.4%, and emerging markets stocks rebounded from a nasty 2015 to return +5.7%. Another nice turn in our favor: value stocks, which had so grievously trailed growth stocks last year (by -9.5% among large companies), this time delivered the better performance, and as shown at upper right, quality bested non-quality by a country mile.

As Prices Bucked About, Quality Excelled

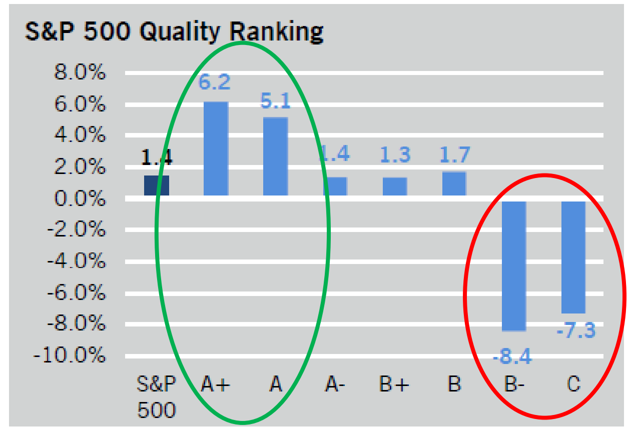

Chart Source: Eaton Vance

Point to point, bond markets were universally strong, though not without inducing queasiness among junk bond holders along the way (higher risk slices of the credit market correlate significantly with stocks, and accordingly gave a bumpy ride).

The dollar weakened across the quarter – a big change in direction from its strengthening trend of the last few years. This helped us more than it hurt us, given our foreign asset exposures.

One of the most remarkable – and yet largely unremarked – stories of the quarter was stabilization in commodity pricing. Whereas the commodities complex had been an absolute widow-maker over the prior five years, that plunge abated, with the Bloomberg Commodity Index turning in a +0.4% gain. Far and away the best performing subsector was precious metals, up +15.3%, and bravo to that.

The immediate rear-view looks good, but now what? Stock investors seem to be drifting into earnings season with a day-dreamy carelessness, and with prices high again, domestic risk markets seem once more to have unmoored from fundamentals. We like some of the readings we get from the real economy, but we're increasingly discomfited by risk-reward imbalances in the financial economy. That early volatility may not be this year's last.