Rochester Financial Services

Fee-Only® Financial Management Services

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Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
17,737	2,066	4,892	1,108	1.78%	5.81%	$1,218	$35.46

Investment Strategy Report

Stocks Climb Out Of Their Hole To Finish The First Quarter In The Black

The prospects for the stock market for 2016 seemed pretty hopeless less than 2 months ago, as stocks got off to one of their worst starts to a year. However, they staged a sphinx-like recovery beginning in mid February, managing to end the first quarter in positive territory. So while stocks now stand little changed from where they started the year, investors are feeling pretty good right now, having had their substantial losses wiped out and being able to start anew with a clean slate.

In my December newsletter I quoted Wharton Business School professor Jeremy Siegel as saying that "if oil can stabilize at the $40 to $50 level and the dollar stabilize at $1.05 to $1.10 to the euro, S&P earnings can rise next year to $120 (from $105 in 2015)". So when in January, the dollar strengthened and the price of oil dropped to $26 per barrel, stocks did not take kindly to that. Add to that fears about a continuing slowdown in China, causing a collapse in commodity prices, and we found the major US stock indexes down over 10% after only a few weeks. However, since then we have seen the price of oil climb to $40 per barrel (before coming back down to the mid thirties) and the dollar weaken about 6% vs. the euro, giving a boost to our multinational corporations. And while there are still concerns about China, they are less so now, and the Shanghai composite is about 10% off of its lows.

So earnings projections for 2016 are being revised higher and investors are becoming more optimistic about seeing further gains for stocks. I would be remiss in this discussion about the stock market if I didn't mention the effect that the Federal Reserve has on stocks. A "hawkish Fed", which is a Fed that expresses a desire to "normalize" interest rates or raise rates to pre-recession levels, has had a significantly negative effect on stocks. Investors fear that higher interest rates would choke off economic growth and put a damper on the recovery. A dovish Fed, which is a Fed that is in no hurry to raise rates, has had a very positive effect on stocks, as investors see that strategy as continuing to provide monetary stimulus to the economy.

The Fed raised rates in December and many blame that move on the resulting global market sell-off that we saw in January. Since then, we have seen a much more dovish Fed, as chairman Janet Yellen has recently made statements that have backed off on previous hard line declarations. Instead of previous statements suggesting that they would raise rates 4 times this year, Yellen has stated that maybe only 2 rate hikes were in store for 2016. The markets liked what they heard and those statements seemed to have kept the rally going.

However, while the recent shift in Fed policy has helped move stocks higher, the biggest stimulus is more probably the lessening fear of recession. Back in January, market forecasters were placing the odds of a recession later this year at around 30-35%. However, recent economic news has gone a long way to allay those fears. Solid jobs reports, which have consistently shown new monthly job growth of over 200,000 indicate that the economy continues to chug along. Housing and auto sales continue to be strong and on Friday, the ISM manufacturing report showed expansion in March for the first time in 7 months. Most economists now see the probability of a recession as being much lower than the 30-35% forecasted back in January. This is the major reason that the fear of a market collapse, that many predicted in January, seems to be off the table for now.

While stocks have had a rollercoaster ride thus far this year, bonds have been doing fine, as both our traditional and non-traditional bond funds have been doing well (and have complemented each other nicely). And in March, for the first time in a long time, emerging market funds had a banner month. While I would like to take advantage of this trend to boost portfolio returns, I will stay patient for now to make sure that this isn't a head fake and that the trend has some staying power.

Tax Deadline - The IRS is giving us until April 18th this year to file our taxes, but hopefully you'll finish up before then. If you need my help with any tax matters, please feel free to call me. But I will be out of the office next Wed-Fri, April 13th - 15th, so try to reach me before then. *Jeff Feldman*

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