Capital Markets Outlook 2016

Bonnie Mole Friday, 05 February 2016 News

We had a great group come out to hear Gerald skillfully explain what's currently going on in the Capital Markets. Here are some highlights:

- Indexes that track the performance of larger companies, such as the S&P 500, have declined 10-12% recently.
- Smaller companies have outperformed larger companies over long periods of time (the past 16 years). However, in the short term, the Russell Index (which tracks small companies) is down 22% over the past 6 months.
- Despite the recent downturn, some sectors (cyclicals, consumer staples and technology) have gained in value. On the flip side, energy and material stocks have dropped dramatically.
- The S & P index broke even in 2015 due primarily to the success of four stocks: Facebook, Amazon, Netflix and Google. This indicates the narrowness of the recent market performance - more stocks declining than rising.
- Current market volatility can be attributed to a variety of factors: uncertainty, slowing growth in China, slower global growth, collapse of oil prices, strength of US dollar, Federal Reserve moves on interest rates, and worries over lower quality corporate bonds.
- So what are we experiencing - a Correction, Bear Market or are we heading for Recession? We've had our second correction in six months (a decline of 10%); and many stocks are already in a bear market (a decline of 20%); but the probability is low that we will enter a recession in 2016. There are bright spots in the US economy: job growth, retail, housing and auto sales. In addition, we have never had a recession that was not accompanied by high oil prices. It is a positive sign that we are now at the extreme of low oil prices.
- Various contrarian indicators show professional traders have more confidence in the market than average investors.
- Valuation of the market is overall still favorable.All said, the prognosis is correction, and continued volatility throughout 2016. But likely not a recession.
- What to do?
    - Maybe nothing
    - Rebalance as needed
    - Understand what you own and why
    - Fight knee-jerk reactions
    - Know your risk tolerance
    - Revisit your asset allocation