

## Market Commentary: July 2016

The older I get, the more I see the wisdom in spending money not on things, but on experiences, opportunities to create great memories. I recently enjoyed several days on a Lewis and Clark cruise down the Snake and Columbia Rivers to the Pacific Ocean with my dad and my son, celebrating Dad's eightieth birthday. This was definitely a memory maker; the time together was very special. It was also a wonderful time to reflect on one of our country's greatest stories about American progress in the face of overwhelming challenges.

In investment terms, we face a market that has recently given us multiple mountains to climb (and descend) yet leaving us frustratingly lower in our progress and with seemingly little prospect of growth. This is the narrative we have been receiving for many months; experts and commentators are explaining how we should learn to live in a "slow growth economy" or even a "world without growth." By contrast, do you remember the "New Economy" of the late 1990's? That chapter did not last long and neither will this one, but some experiences are too soon forgotten, or worse, were never learned. *The business of investing and having a successful experience in the capital markets often necessitates paddling against the current. This is one of those times. The future is very bright and I am excited to share some of the positive signs that are emerging.* However, before we look any further, let's review the frankly frustrating figures from the last quarter and twelve months.

	Benchmark Index	3 month return	12 month return
U.S. Stocks	S&P 500	1.9%	1.7%
	U.S. Total Stock Market	3.2%	-0.5%
	NASDAQ	-0.6%	-2.9%
International Stocks	DJ World (ex. U.S.)	-1.5%	-11.8%
Fixed Income	Short Term Bonds	0.7%	1.4%
	TIPS (Treasury Inflation Protected Securities)	2.3%	4.5%
	Intermediate Term Bonds	2.9%	5.5%
	Aggregate Bond Market	2.3%	4.2%
	International Bonds	3.0%	5.2%

The first days of July have been strongly positive for the markets, up almost 4%. Short rallies like this were a familiar story throughout the last year only to finish with little or nothing to show for it. U.S. stocks had a decent quarter and international stocks held

Grove Street Fiduciary, LLC

Wealth and Trust Advisors

[www.GroveStreetFiduciary.com](http://www.GroveStreetFiduciary.com) 800.258.9939

up pretty well given the Brexit disruption. For the year, international stocks were soundly negative while U.S. stocks were mixed. As one would expect, both domestic and international bonds were beneficiaries of stock market fears; they posted solid returns for the quarter and had their first strong year since 2014.

Despite the fact that domestic stocks have gone nowhere for over a year and international equity moved only to the downside, we need not think this is indicative of the future. On the contrary, in addition to the inherent nature of capital markets to advance, there are some genuine reasons for optimism. The most obvious reason is the tremendous amount of liquidity, available cash, which is ready for investment especially among businesses. The confidence needed for this capital to be deployed might be delayed until we are past the U.S. presidential election, thus keeping prices lower for a while longer. Secondly, debt which has historically been one of the heaviest burdens for both individuals and governments, is much lighter today. The resulting low inflation and low interest rates are giving an emerging global middle class more access than ever to cheap capital. Thirdly, lower unemployment means the consumers have more money to spend, not to mention the increase in productivity that will follow. *So, while Wall Street has been flat the past couple of years, Main Street has gained much needed ground, closing the gap and likely setting up future market advances.*

A mentor of mine taught me that wisdom appeals first to the mind; foolishness to the senses. In other words, if you are listening or reading financial advice and it appeals to greed or your sense of fear, steer clear of it. Until the markets reflect the brighter outlook, we will persevere through the volatility and scary market headlines. We have to remain wisely invested and patient. We must ensure that all of your cash flow needs are met and your portfolio is ready to capture the positive market returns ahead. *This part of investing is hard work. There is no getting around it.* Growth in the capital markets is happening - despite the flat returns we have today.

I hope this summer is providing you with some opportunities for making wonderful memories. We thank you for your patience and your trust.

*"Keep an open mind and work hard. The last is most important of all. There is no shortcut."* – Alfred P Sloan Jr., American businessman

Best regards,



Carl Amos Johnson, MBA, CFP®, AIF®

July 11, 2016

Grove Street Fiduciary, LLC  
Wealth and Trust Advisors

[www.GroveStreetFiduciary.com](http://www.GroveStreetFiduciary.com) 800.258.9939



GROVE STREET FIDUCIARY, LLC  
WEALTH AND TRUST ADVISORS







# Q2

Quarterly Market Review  
Second Quarter 2016

# Market Summary

## Index Returns



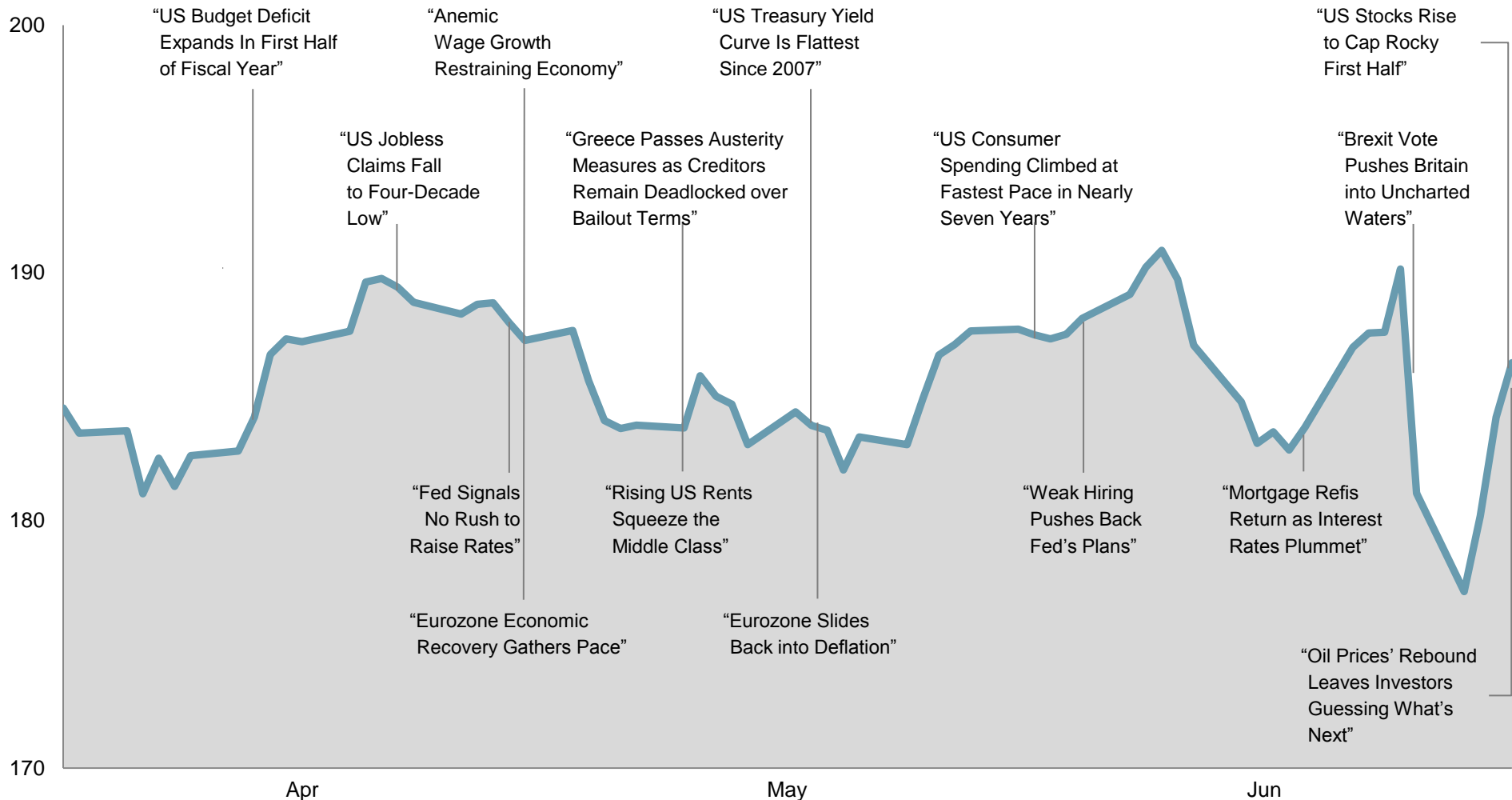
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
2Q 2016	STOCKS					BONDS	
	2.63%	-1.05%	0.66%	4.48%		2.21%	3.11%
							

Since Jan. 2001							
Avg. Quarterly Return	1.7%	1.3%	2.9%	2.9%		1.3%	1.2%
Best Quarter	16.8% Q2 2009	25.9% Q2 2009	34.7% Q2 2009	32.3% Q3 2009		4.6% Q3 2001	5.5% Q4 2008
Worst Quarter	-22.8% Q4 2008	-21.2% Q4 2008	-27.6% Q4 2008	-36.1% Q4 2008		-2.4% Q2 2004	-3.2% Q2 2015

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBI ex USA 1–30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2016, all rights reserved. Barclays data provided by Barclays Bank PLC. Citigroup bond indices © 2016 by Citigroup.

# World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2016



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index. MSCI data © MSCI 2016, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

# US Stocks

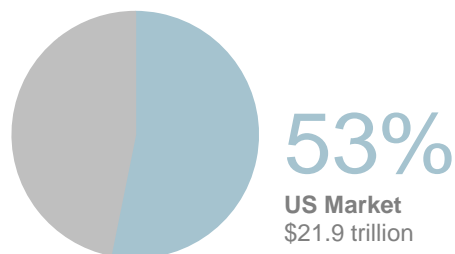
## Second Quarter 2016 Index Returns

The broad US equity market recorded positive absolute performance for the quarter.

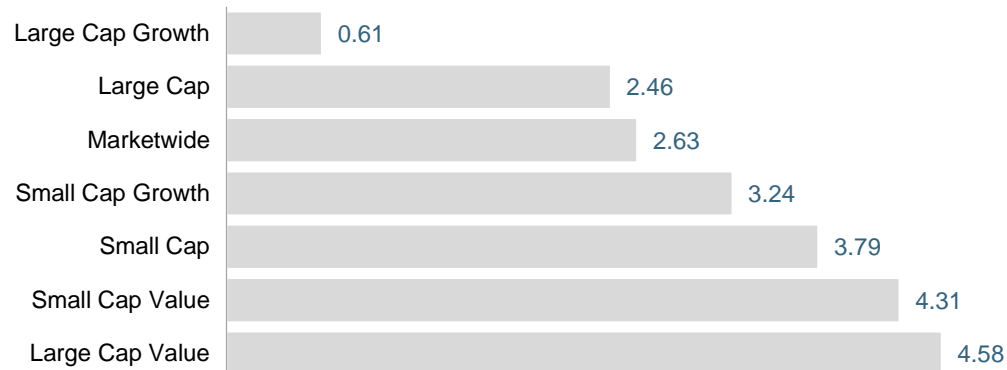
Value indices outperformed growth indices across all size ranges.

Small caps outperformed large caps.

### World Market Capitalization—US



### Ranked Returns for the Quarter (%)



### Period Returns (%)

*\* Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	3.62	2.14	11.13	11.60	7.40
Large Cap	3.84	3.99	11.66	12.10	7.42
Large Cap Value	6.30	2.86	9.87	11.35	6.13
Large Cap Growth	1.36	3.02	13.07	12.35	8.78
Small Cap	2.22	-6.73	7.09	8.35	6.20
Small Cap Value	6.08	-2.58	6.36	8.15	5.15
Small Cap Growth	-1.59	-10.75	7.74	8.51	7.15

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (S&P 500 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. The S&P data are provided by Standard & Poor's Index Services Group.

# International Developed Stocks

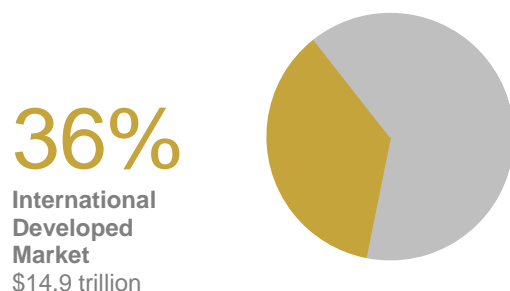
## Second Quarter 2016 Index Returns

In US dollar terms, developed markets outside the US lagged both the US equity market and emerging markets indices during the quarter.

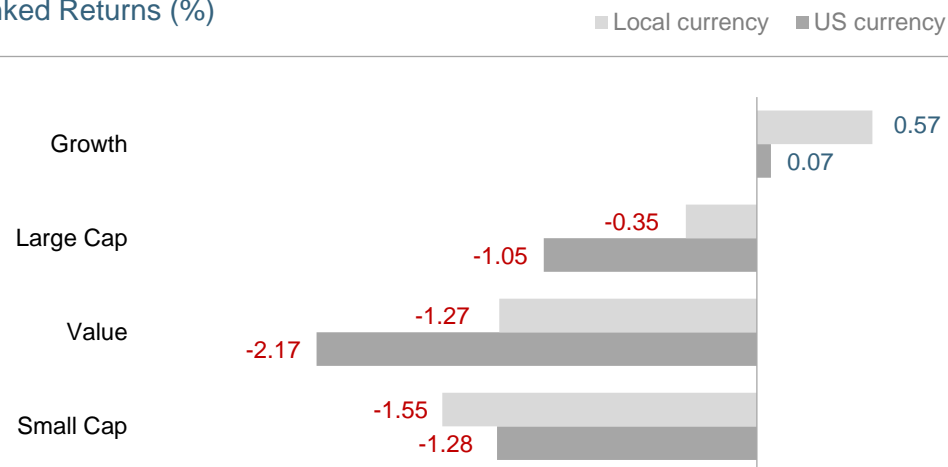
Small caps slightly underperformed large caps in non-US developed markets.

The value effect was negative in non-US developed markets using broad market indices across all size ranges.

### World Market Capitalization—International Developed



### Ranked Returns (%)



### Period Returns (%)

Asset Class	* Annualized				
	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-2.98	-9.84	1.88	1.23	1.63
Small Cap	-0.69	-3.35	6.34	3.61	3.33
Value	-4.68	-14.35	-0.24	-0.17	0.43
Growth	-1.29	-5.25	3.94	2.58	2.75

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI World ex USA IMI Index is used as the proxy for the International Developed market. MSCI data © MSCI 2016, all rights reserved.

# Emerging Markets Stocks

## Second Quarter 2016 Index Returns

In US dollar terms, emerging markets indices underperformed the US but outperformed developed markets outside the US.

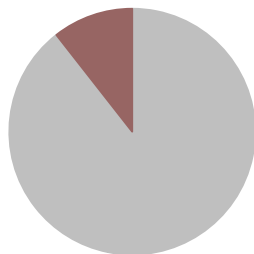
The value effect was negative in emerging markets using broad market indices. Large cap value indices underperformed large cap growth indices. The opposite was true among small caps: Small cap value indices outperformed small cap growth indices.

Small cap indices slightly underperformed large cap indices in emerging markets.

### World Market Capitalization—Emerging Markets

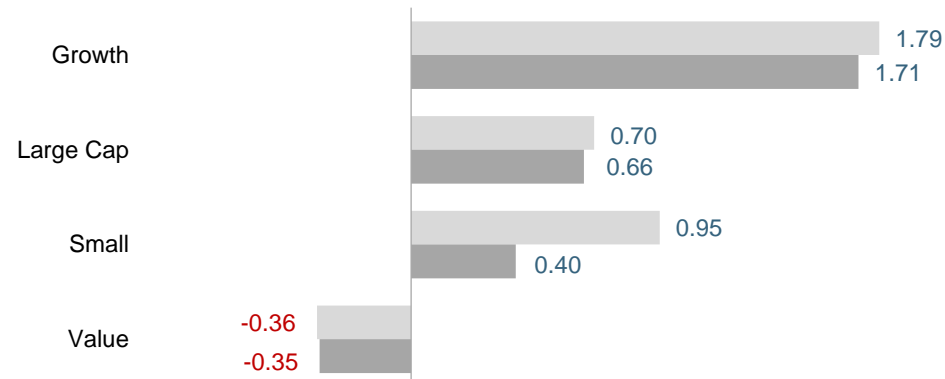
11%

Emerging Markets  
\$4.4 trillion



### Ranked Returns (%)

Local currency US currency



### Period Returns (%)

\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	6.41	-12.05	-1.56	-3.78	3.54
Small Cap	1.38	-12.76	-0.01	-2.29	5.98
Value	7.41	-14.41	-3.30	-5.53	3.29
Growth	5.43	-9.83	0.08	-2.11	3.71

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market. MSCI data © MSCI 2016, all rights reserved.

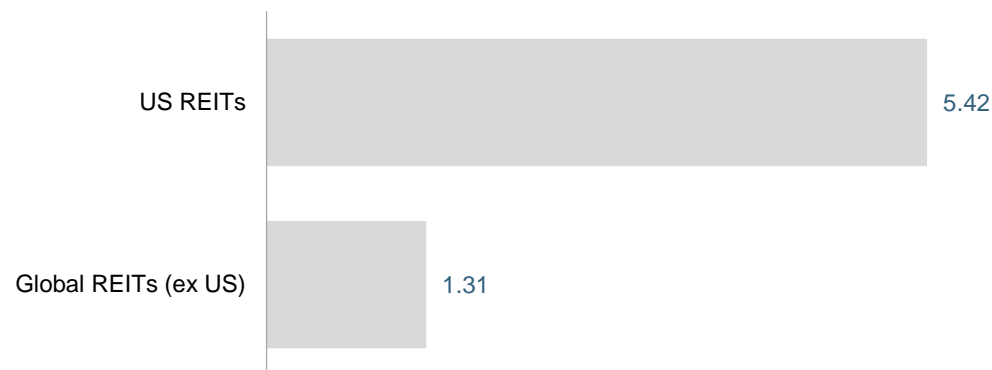


# Real Estate Investment Trusts (REITs)

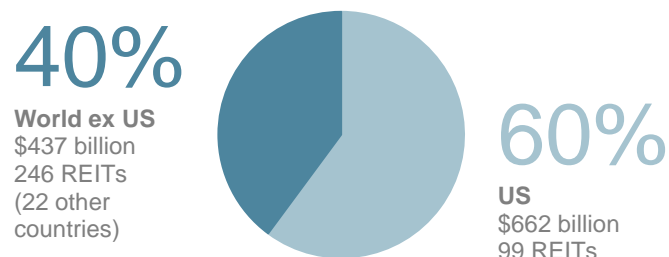
## Second Quarter 2016 Index Returns

US REITs had very strong positive returns for the quarter, outperforming the broad equity market. REITs in developed markets recorded positive returns, also outperforming broad developed equity markets indices.

### Ranked Returns (%)



### Total Value of REIT Stocks



### Period Returns (%)

\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	10.82	22.85	13.55	12.30	6.86
Global REITs (ex US)	10.02	7.25	6.96	5.91	3.31

# Commodities

## Second Quarter 2016 Index Returns

Commodities were broadly positive during the quarter. The Bloomberg Commodity Index Total Return gained 12.78%. Energy turned positive with natural gas gaining 30.88%, Brent crude oil 19.51%, and WTI crude oil 18.64%.

The Softs complex was also positive with sugar gaining 29.84%, coffee 10.90%, and cotton 10.29%.

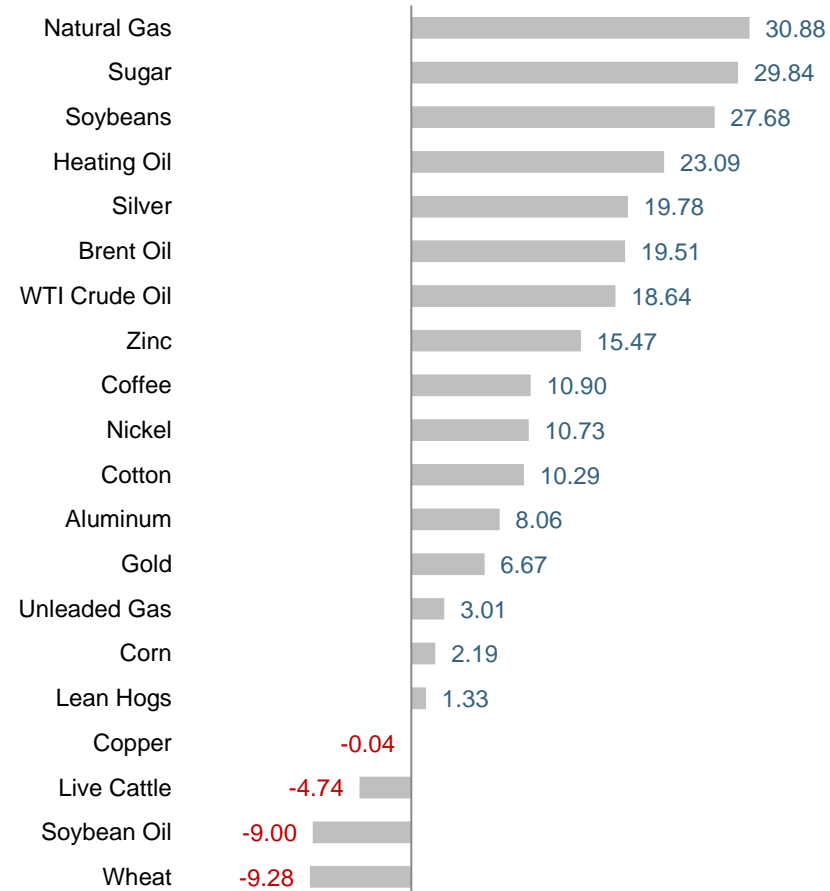
Grains were mixed: Soybeans returned 27.68%, yet Kansas wheat and Chicago wheat declined 16.26% and 9.28%, respectively.

### Period Returns (%)

\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	13.25	-13.32	-10.55	-10.82	-5.59

### Ranked Returns for Individual Commodities (%)



# Fixed Income

## Second Quarter 2016 Index Returns

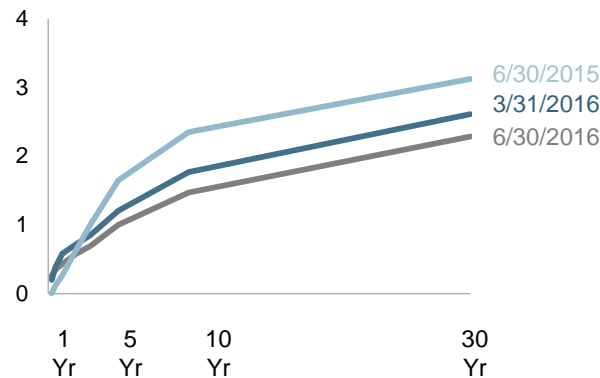
Interest rates across the US markets generally decreased during the quarter. The yield on the 5-year Treasury note fell 20 basis points (bps) to end at 1.01%. The yield on the 10-year T-note decreased 29 bps to 1.49%. The 30-year Treasury bond declined 31 bps to finish with a yield of 2.30%.

The 1-year T-bill ended the quarter yielding 0.45% and the 2-year T-note finished at 0.58%, for declines of 14 and 15 bps, respectively. The 3-month T-bill increased 5 bps to yield 0.26%, while the 6-month T-bill dipped 3 bps to 0.36%.

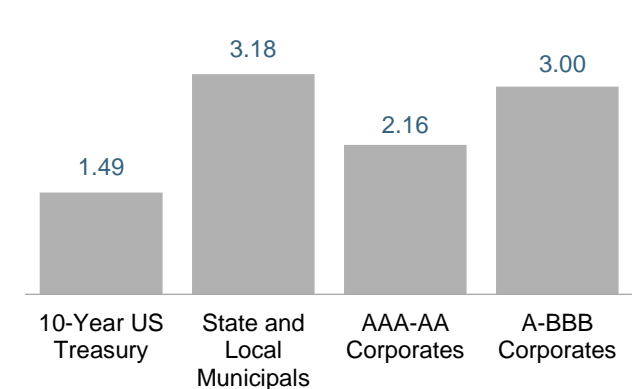
Short-term corporate bonds gained 1.05%. Intermediate-term corporates returned 2.24%, while long-term corporate bonds returned 6.64%.<sup>1</sup>

Short-term municipal bonds returned 0.66%, while intermediate-term municipal bonds gained 1.84%. Revenue bonds slightly outperformed general obligation bonds.<sup>2</sup>

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.15	0.19	0.09	0.09	1.04
BofA Merrill Lynch 1-Year US Treasury Note Index	0.65	0.59	0.38	0.34	1.69
Citigroup WGBI 1-5 Years (hedged to USD)	1.86	2.36	1.82	1.84	2.98
Barclays Long US Government Bond Index	14.94	18.98	10.38	10.17	8.69
Barclays US Aggregate Bond Index	5.31	6.00	4.06	3.76	5.13
Barclays US Corporate High Yield Index	9.06	1.62	4.18	5.84	7.56
Barclays Municipal Bond Index	4.33	7.65	5.58	5.33	5.13
Barclays US TIPS Index	6.24	4.35	2.31	2.63	4.76

\* Annualized

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

1. Barclays US Corporate Bond Index. 2. Barclays Municipal Bond Index. Yield curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality.

AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Barclays data provided by Barclays Bank PLC. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A.

Sinquefeld). Citigroup bond indices © 2016 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2016 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation.