Beacon Trust

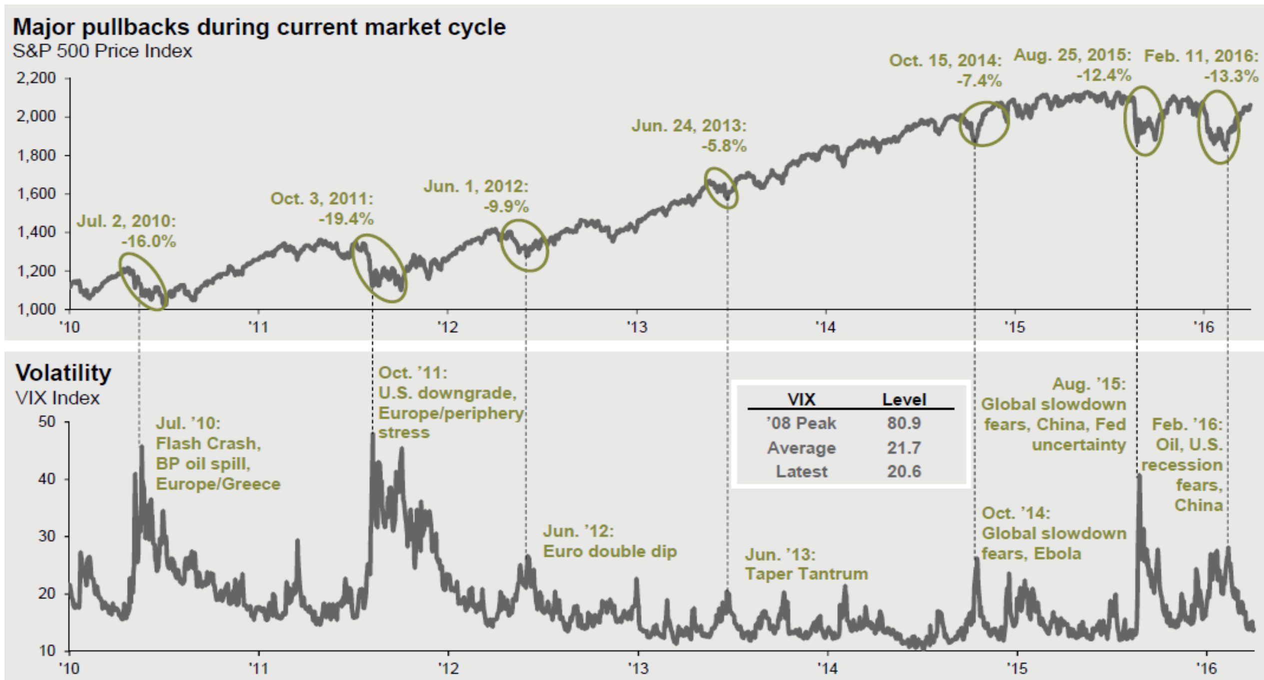
Guiding you forward.

Market Outlook 1Q 2016 Review **April 22, 2016**

Our equity market outlook is one of modest returns and heightened volatility. Valuations on the S&P 500 are a bit extended, with the market trading at 17x–22x earnings, depending on the data source. We believe that material P/E multiple expansion is unlikely, so returns will likely be limited to earnings gains, dividends and net stock buybacks. As we enter earnings season, sources of risk may include disappointing earnings outlooks from market leaders, below trend growth and currency devaluations in China and the threat of recession in Europe.

In our view, there is low risk of a near-term recession in the U.S. The Institute for Supply Chain Management's Service and Manufacturing indexes are both showing readings above 50, a figure which is indicative of an economic expansion. However, we do sense that the risk of recession is rising a bit, primarily based on the trend in the Change in Labor Market Conditions Index. Roughly 40 percent of sovereign bonds in Europe and Japan have negative yields. This dynamic makes it likely that U.S. interest rates will remain low, as foreign buyers are drawn to the relatively attractive U.S. yields. We estimate the benchmark 10-Year U.S. Treasury Note will stay in the 1.25% –2.25% range for 2016, with the higher threshold achievable if U.S. GDP growth exceeds 2%. Bond yields will also be anchored somewhat by the Federal Reserve's concern with international growth and other foreign risk factors. In this context, the International Monetary Fund (IMF) recently lowered its global growth outlook to 3.2% in 2016, which is down from a 3.4% estimate in January. The Dollar Index (DXY), as measured against major trading partners, has remained below 100 and helped put a floor under oil prices. We continue to anticipate a relatively stable dollar with current weakness perhaps reflecting an increase in the budget and trade deficits, as well as a pullback from its strong levels over the past year and a half. In this environment, fixed income securities will provide income and act as risk reducers in most portfolios. In sum, we believe a diversified portfolio consisting of multiple return drivers is the best way to navigate the current low return environment.

VOLATILITY IS UNSETTLING, BUT PAR FOR THE COURSE



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Bottom) CBOE.
Guide to the Markets – U.S. Data are as of March 31, 2016.

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Please note that this is Beacon's first quarterly outlook writing that is a full collaboration between our Co-Chief Investment Officers. Going forward, we expect further collaboration between our resources for the benefit of our clients.

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