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Market Commentary
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Introduction

In spite of all of the uncertainty surrounding the Fed's plan to raise rates, the upcoming presidential election and the long term effects of Brexit, asset prices have continued to increase this year. The United States economy grew slowly at a 1.4% annual rate in the second quarter, however, job growth has been positive with unemployment at 4.9%, corporate profits appear to be rebounding and inflation is up 1.1% from a year ago. Further, consumer confidence increased in September reaching 104.1, the highest reading since August 2007. These fundamentals support the notion that the economy is not suffering nor booming but instead, somewhere in the middle. Globally, central banks have continued to suppress interest rates in hopes of stimulating growth. As a result, stock prices continued to appreciate and the hunt for yield persisted. Although performance has been positive so far this year, volatility is expected in the months ahead, presenting opportunities for investors moving into 2017.

Domestic Equities

Despite negative earnings growth for the fifth consecutive quarter, the S&P 500 had strong quarterly performance returning 3.85% for the quarter and 7.84% year to date (through September 30th). Diversifying U.S. equities by market capitalization helped portfolios this quarter as small cap stocks returned 9.05% and mid cap stocks returned 4.52%, outperforming U.S. large cap stocks.

Although earnings growth has been negative, there has been modest improvement from the previous season. This along with strong employment data, a healthy consumer and modest inflation have been enough to support stock prices so far this year. Also, with oil prices stabilizing, the profits of energy companies should improve, which have been a drag on the overall earnings of the S&P 500. With the presidential election and December Fed meeting around the corner, we expect some days of volatility in the months ahead but overall, we are optimistic about the U.S. equity market.

International Equities

International markets quickly recovered from the Brexit shock, as the MSCI EAFE index returned 6.43% for the quarter. However, due to the fallout from earlier uncertainties surrounding Brexit in the first half of the year, international equities still trail U.S. equities year to date, with the MSCI EAFE only up 1.43%. Following Brexit, the depreciation of the Pound and Euro allowed for improvement in European manufacturing and exports as their goods and services became more price competitive. We remain cautious towards international equities, as potential downside risks linger from both long term consequences of the Brexit and instability in the European banking system. Emerging market equities performed well this quarter partly due to firming commodity prices in the second half of the quarter, demonstrated by oil finishing at $48 per barrel. While emerging market equities could present a compelling investment opportunity, their close tie to commodities is a headwind, as commodity price movement is largely driven by speculation.

Fixed Income
Headwinds like Brexit, inaction by the Federal Reserve, and negative global yields from major international economies continued to suppress yields on safer US fixed income assets in the third quarter. The yield on the U.S. 10 Year Treasury finished the quarter at 1.60% after hitting its lowest point in history at 1.36% on July 8th. The Barclays US Government/Credit Index managed to post a 0.16% return for the quarter, and is up 4.24% year to date. Due to their correlation to equities, high yield bonds continued to rally this quarter, returning 5.55% and 15.11% on the year. As the odds of a Fed rate hike increase, both short term and long term bonds could be subject to large downside risks; therefore, intermediate bonds present an attractive opportunity in this environment. While nearly 50% of global sovereign bonds have a negative yield, U.S. and emerging market debt, which are backed by solid or improving fundamentals, present attractive opportunities to capture yield.

Alternatives
Heading into a potentially volatile election season and the final Federal Reserve meeting of the year, traditional return-enhancing alternative asset classes have been volatile; for example, commodities went from being the best performing asset class in the second quarter to the worst-performing asset class in the third quarter, down -4.0%. Oil prices have experienced similar levels of volatility, with Crude oil starting and finishing the quarter above $48 per barrel, but dipping as low as $41 per barrel in early August. The increasing probability of Federal Reserve rate hikes in the upcoming quarters have put pressure on non-yielding assets such as gold, and low inflation will continue to hurt the value of the precious metal as a means to hedge against inflation.

Real Estate
Demographics and a "lower for longer" rate environment remain positive signals for the real estate market moving into the end of 2016 and onward. Recent data has not been strong, with both new and existing single-family home sales declining in August, but the trend remains positive, as new home sales are up 20.6% in the past year. The homeownership rate is at historically low levels, leaving plenty of potential home buyers on the table. Heading into the final quarter of 2016, we remain cautiously optimistic that real estate will continue to be a positive contributor to the U.S. economy.

Conclusion
History has proven that the fourth quarter of each year is profitable for stocks, however, uncertainty exists today because of confusion regarding the upcoming presidential election and the Fed's plan to raise rates. This being said, the data tells us the economy is OK and there are no signs of a recession in sight. We remain positive in our outlook for the markets and disciplined in our investment approach, which is to stay diversified to navigate through volatile environments.