PARKS WEALTH MANAGEMENT

September 15, 2016

Dear Valued Investor:

After a very quiet stretch for stocks in the second half of the summer, market volatility has returned in September. Much like shifting to busier fall schedules once September and the new school year begin, this pickup in volatility we've seen is normal from a historical perspective, but does require some adjustment after a quiet summer. Here are some of the key items to watch as we make our way through one of the most historically volatile months of the year.

What's been driving the recent increase in market volatility? Not surprisingly, the Federal Reserve (Fed) has been playing an important role. When central bank policy is helping to support the economy (sometimes called "loose monetary policy"), it tends to lower volatility. Market participants see central bank support as a backstop. Over the last month, there have been a number of Fed officials, including Chair Janet Yellen, who have signaled that an additional interest rate hike (the first since December 2015) may be warranted given improving economic data, including job growth in June and July that was well above expectations. Our view remains that these comments are likely aimed at acclimating markets to a December 2016 rate hike, considering the weaker August jobs report, but a September hike remains a possibility.

Although the Fed's gradual moves toward a more neutral role in the economy may increase market volatility, historically, at these early stages of rate increases, it has had little impact on stock returns. That's held true for this last year or so too. As of the end of August, the S&P 500 Index had a total return of a little over 6% since the Fed's first rate hike in almost 10 years, which occurred back on December 16, 2015. What may be more important for stocks is a pickup in earnings growth. Thomson Reuters estimates put third quarter earnings growth for the S&P 500 at near flat, followed by meaningful acceleration in the fourth quarter of 2016 and into 2017.

One other shift we've seen recently is the rise in the 10-year Treasury yield. Although this increase was jarring for some investors, it does not seem to be indicating the start of a major bond sell-off; instead, it is more likely that the market is already preparing for potentially reduced central bank stimulus overseas and an upcoming Fed rate hike. A market on guard for a rate hike is much less likely to be shocked by one, and thus potentially less likely to produce a significant sell-off.

We continue to see little evidence signaling we may be on the verge of a recession, despite increased financial market volatility. The chance of a recession in the next year is at about 20%, based on economic indicators that have historically led the economy. Economic data on the whole have improved over the last several months, although reports received in August and early September were not quite as strong. Absent a recession, an earnings rebound over the next several quarters, if it materializes, should help support financial markets.

216 EAST RIDGEWOOD AVE., 2ND FLOOR, RIDGEWOOD, NJ 07450
TEL 201.689.2020 TOLL FREE 800.455.9940 FAX 201.689.6850
www.parkswm.com

U.S. elections will also continue to grab headlines over the next almost two months. America will go to the polls on Tuesday, November 8, with presidential debates scheduled for September 26, October 9, and October 19. Early voting starts as early as Friday, September 16, when battleground state North Carolina becomes the first state to mail out absentee ballots. Markets historically have not signaled any real preference for one party or the other, but markets do dislike uncertainty and volatility could pick up pre-election if polls continue to be close; however, both candidates have the capacity to settle markets once the election is behind us.

While uncertainty around the election and the Fed bears watching closely, we continue to believe that the most important factors in reaching financial goals are not short-term market drivers but sound advice, a good plan, and patience. The school year often begins with a new assignment book for students to help them learn to stay on track (although, as with so many things, these days there's an app for that). Although we do want to check in on our progress from year to year or as circumstances require, the "assignment book" in financial planning typically covers decades and requires slow, steady progress. Staying focused on those long-term goals can help maintain perspective as we enter a potentially more volatile fall.

As always if you have any questions, I encourage you to contact me.