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## Second-Quarter 2016 Market Review

### Brexit Barrage... & Bounce!

**July 2016** - An unexpected vote by Britain to leave the European Union sent markets reeling in the latter part of June: stocks plunged; the British pound suffered its worst one-day drop in history and sank to 30-year lows; while bonds rallied as investors sought a safe haven. During the two-day sell-off, global stock markets lost a collective \$3.0 trillion. Despite the economic and political upheaval, stocks immediately rebounded, with U.S. markets posting their best week of the year. Moreover, the U.K.'s FTSE 100 index saw its strongest week in four years.



During the Brexit barrage, U.S. stock market barometers slipped into negative territory for the year, but the follow-up bounce led to a first-half finish above water: the Dow Jones Industrial Average added 2.9% and the Standard & Poor's 500-Stock index (total return) rose 3.8%. The tech-heavy NASDAQ Composite index did not fare as well, shedding 3.3%.

Although it would take at least two years to complete Britain's exit from the E.U., investors and lawmakers were assessing the economic uncertainty and potential fallout from the departure. In addition to the exit itself, Britain would ultimately have to negotiate trade agreements with each of the 28 E.U. countries. Further, London's status as Europe's financial center has been called into question. Large U.S. and global financial institutions have used London as a gateway to access European markets.





For the second quarter of 2016, major domestic equity asset classes managed low single-digit gains, while developed international markets continued with small losses. Emerging markets provided a bright spot internationally, picking up 0.8% and 6.6% for the second quarter and first half of 2016, respectively. Commodity stocks continued to recover from 2015's 27% backslide, with a 7.9% jump for the second quarter and a 16.6% climb at the mid-year point.

Bonds were the place to be in the first half of 2016, with increases across-the-board in both quarters. Uncertainty about the global economy resulted in investors flocking to the relative safety of bonds and bidding up their value. There is an estimated \$12 trillion globally of bonds with negative yields (i.e., the lender/investor would receive less than originally invested at maturity versus the borrower paying interest to borrow money) and is expanding at a rate of \$100 billion per month. At mid-year, Global Aggregate, U.S. High Yield, and International Emerging Markets generated equity-like returns, swelling 9.0% or more.

With weak consumer sentiment, as well as concerns about the U.S. job market and the Brexit referendum, during the quarter the Federal Reserve made no changes to its interest rate policy. Before hiking rates again, Fed governors are waiting to make sure that the momentum in the economy has not diminished.

At quarter end, the yield on the 10-year Treasury note was 1.49%, down 28 and 78 basis points for the quarter and year-to-date, respectively (the yield as of July 8th was a record low 1.36%; the closing yield on July 13 was 1.47%).

Below are rates of return for selected market indices for the second quarter and first half of 2016, and the three, five, and 10-year compound annual returns as of December 31, 2015.

	<u>2Q:2016</u>	<u>YTD-2016</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<b><u>Equity (Stock) Indices</u></b>					
Domestic					
Russell 1000 - Large Cap	2.54%	3.74%	15.01%	12.44%	7.40%
Russell Midcap	3.18%	5.50%	14.18%	11.44%	8.00%
Russell 2000 - Small Cap	3.79%	2.22%	11.65%	9.19%	6.80%
Real Estate (FTSE EPRA/NAREIT Global)	3.57%	8.83%	5.32%	6.86%	5.16%
Commodity (Dow Jones Global Equity 100)	7.93%	16.56%	-14.31%	-11.66%	NA
International					
MSCI EAFE Developed Large Cap	-1.19%	-4.04%	5.46%	4.07%	3.50%
MSCI EAFE Developed Small Cap	-2.42%	-2.92%	10.79%	6.67%	4.90%
MSCI Emerging Markets	0.80%	6.60%	-6.42%	-4.47%	3.95%
Global - MSCI All Country IMI	1.25%	1.69%	8.41%	6.66%	5.52%
<b><u>Fixed-Income (Bond) Indices</u></b>					
Barclays Capital					
Global Aggregate	2.89%	8.96%	-1.01%	1.34%	4.00%
U.S. Aggregate	2.21%	5.31%	1.45%	3.25%	4.52%
U.S. Treasury TIPs	1.70%	6.24%	0.03%	3.99%	4.66%
U.S. Corporate High Yield	5.52%	9.06%	0.45%	4.27%	6.56%
Municipal	2.62%	4.33%	4.16%	5.96%	5.02%
International Emerging Markets	4.67%	9.40%	2.40%	6.26%	7.30%

Source: ftserussell.com, reit.com, djindexes.com, msci.com, barcap.com



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