January 20, 2016

Rough Start to the New Year

The first two weeks of 2016 have been eventful for investors. Domestic stocks tumbled across the board, though small caps seemed to get hit the hardest, signaling the market's disinterest in riskier companies. The rout was enough to drop all three domestic indices more than 10% below their 52-week intraday highs and into correction territory. Consumer discretionary stocks were among the weakest, which could be a sign that lower gas prices aren't enough to counteract the lack of wage growth in the labor market.

In addition, crude oil dropped below $30 a barrel for the first time in more than 10 years, and the world's second largest economy continues to show signs of weakness. Concern remains that turbulence among China's stocks and currency will spread to the global economy. Market observers will likely pay extra attention to the upcoming earnings announcements as an indicator of the economy's trajectory.

The most recent jobs report, released January 8, was a bright spot, with nonfarm payrolls rising more than expected in December. Unemployment has now fallen to 5%, indicating the labor market recovery remains on track. The Federal Reserve's Beige Book survey indicated modest-to-moderate expansion for much of the country over the past six weeks, with wage and price pressures remaining largely in check. However, this bit of good news was overshadowed by developments in China that brought trading on the Shanghai Composite Index to a complete halt twice in one week.

Raymond James experts noted in their 2016 outlooks that volatility was to be expected over the short term, given the headwinds facing the domestic economy and the markets. Chief Investment Strategist Jeff Saut believes the downside should be contained on a short-term basis from here given the oversold nature of the market, but did say it's possible we are still in the middle of a 17- to 25-session sell-off. Likewise, Chartered Market Technician Andrew Adams noted that the stock market is at a critical juncture right now and that investors may want to review their portfolios for positions that are deteriorating below support levels.

As long-range planners, we understand that historically markets have tended to trend upward over time, and that some volatility, while uncomfortable, is to be expected. More important, short-term turbulence can present strategic opportunities for investors to potentially create wealth over the long term.

Should you have questions about the current market environment, please feel free to reach out to me. I would be happy to serve as a sounding board and set aside some time to discuss your financial plan.

unmanaged index of 500 widely held stocks. The Shanghai Composite Index is a capitalization-weighted index, that tracks the daily price performance of all A-shares and B-shares listed on the index. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Small-cap stocks involve greater risks and are not suitable for all investors. The performance noted does not include fees or charges, which would reduce an investor's returns.