Monthly Market Returns

Index	1 – Month Return	Year to Date Return	1 Year Return
S&P 500	-0.15%	--5.11%	-6.23%
Russell 2000	-0.22%	-8.79%	-14.90%
MSCI EAFE	-3.33%	-8.94%	-15.24%
Barclays Aggregate Bond	0.89%	2.10%	1.44%
Brent Crude	8.31%	-3.72%	-30.68%
Gold Spot Price	10.52%	15.81%	5.82%
MSCI Emerging Markets	-0.20%	-6.75%	-23.82%

There is a tremendous amount to discuss for the month that has passed and a great deal taking shape for the next few weeks. As we mentioned last month, the support levels on the S&P were of keen concern to us and they are, to date, holding up. Today's market action is favorable as the market really wants to hold 1950 on the S&P which confirms our short term bullish bias. However, we are very cautious long-term and believe we will be more likely to stay within the channel indicated below than to break above it. In the short term, this is more of a "sell the rallies" market than it is "buy the dips."

Thus far the greatest benefactor of equity market weakness has been gold. The much maligned asset is showing remarkable strength thus far in 2016 and has demonstrated a notable break out as indicated below:

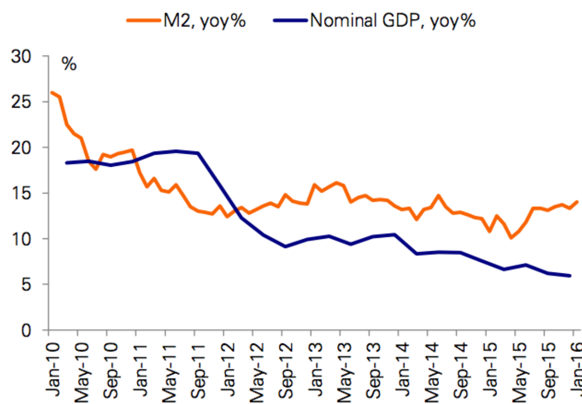
This move indicated by the blue arrow is known as a "hammer" in technical analysis speak and generally serves as a longer term bullish indicator. Gold will undoubtedly be volatile in the short term but will likely serve as a favorable asset class for investors able to hold it over time. Presently, it is serving as the "risk off" asset of choice when stocks are down and we expect that trend to continue.

Oil is beginning to show some signs of life and notable investors have come to the table this past month to include, Warren Buffet and George Soros. Both are buying heavily in the US pipeline sector which is one segment of the energy market in which we have maintained our bullish posture. This does not necessarily mean that the worst is over for the energy sector but it does show signs of rational investor behavior as those with deep pockets seek to profit from the oversold condition of many pipeline companies.

Additionally, there have been conversations between OPEC players as they try to once again coordinate their production and send the price of crude up for a change. Russia and Saudi Arabia reached a common position in meetings in Doha to freeze their current levels of output. This action hardly corrects the supply and demand imbalance but it does indicate a willingness to end the pain that low prices have brought. Russia's energy minister, Alexander Novak, also indicated that talks with Venezuela and Iran are ongoing and that an oil price of $50 per barrel would suit them in the long term. Again this indicates that there is a strong desire to cut production but to do so in a coordinated fashion and see prices higher. It is impossible to forecast when that will occur but these are certainly steps in the right direction and underscore a generally bullish posture on oil prices over time.

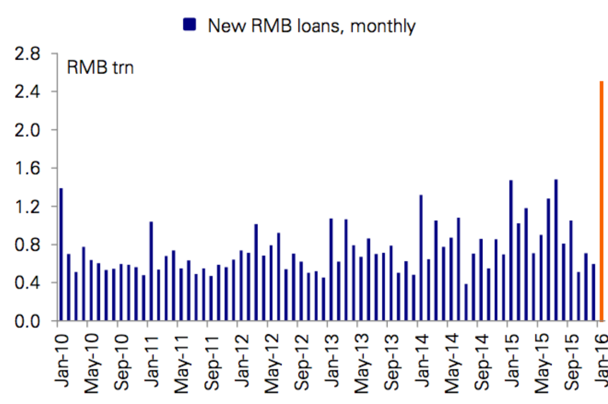
News from China continues to disrupt and we take little confidence from developments in the world's second largest economy. February was notable for all the wrong reasons as the Chinese government has begun printing and lending vast sums of its currency to try to pick up the economic slack. The chart below on the right indicates new loans made in the month of January which is roughly two times the highest monthly amount anytime since the Great Recession. The chart on the left illustrates the disturbing trend of continually weakening Chinese GDP and growing money supply as measured by M2. This tells us that growth continues to slow and debt continues to pile up. Not a good formula for long term viability. We are increasingly concerned that a massive property bubble in China is beginning to burst and that the ruling party will have limited effect at offsetting the economic ills that could bring.

Figure 1: M2 growth vs. nominal GDP growth



Source: Deutsche Bank, WIND

Figure 2: New RMB loans, monthly, in RMB trn



Source: Deutsche Bank, WIND

The G20 meeting held this past week indicated a continuation of "whatever it takes" sort of rhetoric from the world's central bankers from which equity markets took heart. The Fed governors are increasingly erratic in their assessment of the US growth picture and in their forecast of interest rate movements. Events of the past few weeks make it increasingly unlikely in our view that US interest rates will rise at all for the remainder of 2016. While the central banks of the world fret over deflation they could be sowing the seeds of inflation with their currency printing experiments. Perhaps the price of gold is telling us something with respect to the prospect of future inflation and the need to own hard assets. Time will tell.

This month we will be watching the following:

- S&P Support Levels
- US Industrial Output
- Super Tuesday Election results

Until next month,

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