APEXIUM® FINANCIAL LP
AN AFFILIATE OF CITRIN COOPERMAN

3RD QUARTER 2016

U. S. equities continued to move higher in the third quarter. The S&P 500 index increased by 3.85%, and is now up 7.84% through September 30. The advance was broad based, as small capitalization stocks enjoyed another strong quarter and international stocks gained momentum after lagging behind U.S. stocks during the first two quarters.

There was some interesting sector rotation during the quarter. Financial stocks, which were weak earlier in the year, significantly outperformed utility stocks, which prior to the third quarter, were strong performers. It is not difficult to understand the divergence. If the prediction of higher interest rates finally becomes reality, banks will benefit from increased profit margins. Conversely, utility and other so-called safe haven sectors will be victimized by the higher rates. The anticipation of higher rates also hurt the bond market. The Barclays U.S. aggregate bond index advanced by just .46% for the quarter, after an impressive (and largely surprising) performance through the second quarter. The fact that the bond market didn't turn in an even worse quarter is a testament to the fact that global central bankers, notably in Japan and Europe, remain extremely accommodative. Nowhere was the "easy money" policy more striking than in the decisions by numerous developed countries to use negative interest rates in the attempt to stimulate their economies.

That policy stands in contrast to the current interest rate environment in the U.S., where the Federal Reserve appears to be moving closer to a .25% increase in the discount rate. The rate increase (should it happen) will be made possible by steady, though unspectacular, improvement in the U.S. economy during the quarter. In fact, recession worries from earlier this year, brought on by fears of a major slowdown in China and other emerging markets, have lessened. So have concerns about the potentially deflationary signal created by the collapse in energy prices. The Brexit vote in late June caught the markets by surprise but after an initial selloff, they quickly stabilized. While the longer range effects remain to be seen, the ability of global equity markets to shrug off the vote is another indication of just how resilient the market has been.

The reemergence of fear over any one of these factors is not out of the question. Nor is a late reaction to upcoming election. The market has impressively discounted the possibility of any adversity stemming from the strangest presidential election that any of us has ever experienced.

Will the equity markets, in the face of all the uncertainty, continue to advance? On the basis of traditional price-to-earnings ratios, U.S. equities appear to be fully priced. The valuations would be far more problematic if interest rates were not unprecedentedly low. While an increase in the discount rate looks increasingly likely, interest rates will most likely remain at historically very low levels for the foreseeable future. We are bracing for an increase in volatility and we remain cautious about the stock market in the near term. As long as interest rates don't spike higher, however, we don't anticipate making significant changes to our portfolio allocations.

The Partners of Apexium Financial LP

© 2016 Apexium Financial LP. All rights reserved.