THE NOT-SO-FAB FIVE

MARCH MADNESS AND STOCK MARKET DRIVERS

To many Americans, March means college basketball and March Madness. You may recall that arguably one of the most famous college basketball teams of all time was the 1991 University of Michigan basketball team made up of five freshmen starters called the "The Fab Five."

So in light of March Madness, we have put together a list of stock market drivers that we have labeled the "Not-So-Fab Five."

1. OIL

Clearly the debacle in the price of oil has negatively impacted the stock market.

What we are watching:

- We would like to see oil above $35 for 35 days
- We would like to see a reduction in production. U.S. production (rig count) needs to come down; inventory levels are too high, OPEC is having some production cut discussions and we are already seeing some of this developing.
- An increase in M&A/Bankruptcies is part of the bottoming process. This has started in 2015 and we think will continue throughout 2016.
- Would like to see some weakness in the U.S. dollar as oil is highly negatively correlated with the dollar, as the dollar strengthens, the price of oil declines. (The dollar is recently off its high)

2. CHINA

China has a significant impact on global economic growth and is in the midst of a mild cyclical slow-down. This is to be expected, but it tends to increase market volatility.

What we are watching:

- -Economic stabilization
  - PMI > 50 (need to see evidence of recent monetary stimulus actions being beneficial to the economy)
  - China's manufacturing data has been weak, PMI has been <50 for seven consecutive months
- Massive volatility in the Chinese stock market has been disruptive to global markets

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What we are watching:

- Yield curve slope remains positive, however flattening, not suggesting a looming recession.

- Leading Economic Indicators (LEI) Index is in positive territory. It would need to turn negative for several months before we become concerned.
- Manufacturing/Non-Manufacturing Index: The Non-Manufacturing Index doesn't point to a recession.
- High yield spreads are also off highs, indicating less stress in the economy.

4. FEDERAL RESERVE

There is a risk of the Fed making a policy error. At this time we think the probability of that happening is relatively low.

What we are watching:

- Fed dot plots need to be aligned closer to the market's expectations which happened on Wednesday.
- Stabilization of global financial markets. The Fed is watching for this as an indicator of global economic growth and impact on U.S. economy. Markets have been firming up nicely, which should allow the Fed to continue to normalize interest rates.

5. POLITICS

Elections cause short-term volatility.

What we are watching:

- We are waiting for a clearer picture of who the nominees will be. The herd is thinning as each day passes.
- Historically during election years the stock market sees a volatile first half and a robust second half. This year appears to rhyme with the historical pattern.
- Limited history of contested convention leads us to believe the Democrats will win the general election. At this time market doesn't seem to care.

We anticipate positive returns in the stock market for 2016 with a near 5 percent total rate of return. Year to date, the market is performing in line with most historical election years which typically exhibit a choppy first half and conclude with a robust second half, giving investors slightly positive returns in the stock market.

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