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Market Update

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As we approach the end of summer, Wall Street and market activity has slowed down as cities and towns are preparing for a long Labor Day weekend of festivities. Here in Harrisburg we enjoy the Kipona. While up North, our friends in Scranton celebrate La Festa Italiana. Labor Day celebrations seem to have a more somber tone than Fourth of July festivities; perhaps we are winding down our summer and preparing to launch ourselves into a more productive state as we enter the fall months.

Market Volatility. Investors can also look back on a quiet, uneventful summer, with the markets offering up solid equity returns in the face of an earnings recession that appears to be turning for the better. The VIX, which is an index that tracks market volatility, sits at a fairly low level indicated by the below chart. You can see the spike to over 25 in early June with the Brexit vote and even higher earlier in the year as China and global growth concerns weighed on the markets. This calm period has allowed investors to peak at their statements, feel good about the market and their investment plan, perhaps move on to getting away from the "urgent", and to thinking more about the "important". But market complacency and low volatility seldom settle in for a long stay, we would expect some disruption in the markets over the next few months as the Federal Reserve continues its trek toward higher interest rates. We believe this is just a pause in a market that is somewhat overvalued, yet able to look through the current earnings recession to the other side of a much brighter outlook in 2017.

Source: Bloomberg

U.S. stocks have returned over 8% so far this year, based on year to date S&P 500 Index performance, well beyond the expectations of most market forecasters. The earnings recession was largely caused by the drastic decline in oil prices; with energy commodity industries tied to over 30% of global capital expenditure spending, the impact on earnings was significant. Oil now having bounced back to the $50/barrel range, earnings estimates has been revised upward, as indicated below with Factset Research's 2017 earnings estimate for S&P 500 companies. As you can see, earnings expectations look pretty strong across the board, with energy being revised upward significantly from estimates given only two months ago. The market is a forward discounting mechanism, likely discounting this expected strength in earnings.

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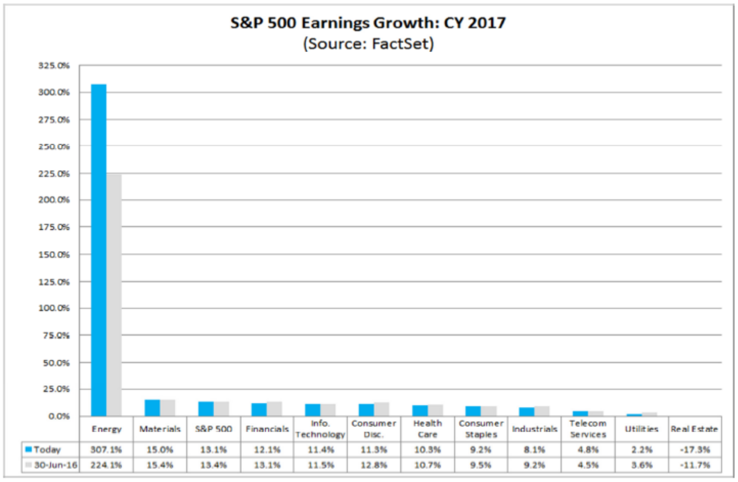

	Energy	Materials	S&P 500	Financials	Info. Technology	Consumer Disc.	Health Care	Consumer Staples	Industrials	Telecom Services	Utilities	Real Estate
Today	307.1%	15.0%	13.1%	12.1%	11.4%	11.3%	10.3%	9.2%	8.1%	4.8%	2.2%	-17.3%
30-Jun-16	224.1%	15.4%	13.4%	13.1%	11.5%	12.8%	10.7%	9.5%	9.2%	4.5%	3.6%	-11.7%

Source: FactSet Research

Economy

The U.S. economy also remains on solid footing, with recent consumer sentiment, new housing starts, and jobs numbers all giving a positive signal to the Federal Reserve that the economy may be healthy enough to survive a few modest rate hikes. Things look pretty good right now for the economy, earnings, inflation, and interest rates—all the ingredients needed to support at least modestly above average price/earnings ratios.

Some negatives that we are keeping our eye on include an early rate hike by the Central Bank this month, which would likely cause a short term correction in the market. U.S. global manufacturing, although still in expansionary territory has slipped a bit, with weakening in some regional Fed indices. The U.S. services PMI index has also slipped to a 6-month low in August, just above contraction levels on weak demand and orders. It appears that a good amount of this softness is due to uncertainty around the election, and the 12-month outlook remains stronger.

As always, we welcome the opportunity to address any questions you might have and to set up a meeting to review your investment plan.

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