MANAGED ASSET PORTFOLIOS

# MAP VIEWS
# SECOND QUARTER 2016

Investors rode an economic roller coaster during the first quarter of 2016. In January, world stock markets suffered their largest losses ever to start a new year as investors worried whether the Federal Reserve's twenty-five basis point December rate hike was going to be detrimental to the global economy. Soothing words from Janet Yellen about the pace of interest rate hikes appeased investors' worst fears and the stock markets posted a strong recovery in the quarter's second half. Amazingly, as dramatic as the intra-quarter swings were, the stock market finished the quarter about where it started. A summary of the individual performances of some popular indices is outlined in the chart below.

| Index | January | February | March | Q1 |
|---|---|---|---|---|
| *S&P 500* | -4.96% | -0.14% | 6.78% | 1.34% |
| *Nasdaq* | -7.81% | -1.03% | 6.98% | -2.40% |
| *MSCI ACWI* | -6.00% | -0.63% | 7.47% | 0.38% |

Especially noteworthy in the quarter was the outperformance of value over growth stocks. For the past four years, value stocks have lagged their growth counterparts. This was especially severe in 2015, when the cheapest quartile of stocks in the S&P 500 declined over 15%, while stocks in the most expensive quartile gained over 12%. The last time the dichotomy in performances between growth and value was this wide was in 1999 right before the bursting of the dotcom bubble. Once the bubble popped, investors were abruptly reminded of the risks embedded in growth. It was right about this same time when investors became appreciative of the value in value stocks.

It is worth noting that value stocks have historically outperformed growth. If we exclude this last four years, there have only been five other times where growth outperformed value. Each of these five instances resulted in value outperforming growth by 50% to 150% in the ensuing five to eight year periods. Whether 2016 marks another one of these turning points is impossible to predict; however, the chart below shows that value stocks started the year strongly.

| Index | January | February | March | Q1 |
|---|---|---|---|---|
| *S&P 500 Value* | -4.88% | 0.55% | 6.85% | 2.19% |
| *S&P 500 Growth* | -5.04% | -0.80% | 6.71% | 0.53% |

Looking forward towards the balance of the year, we see the global economy struggling to show any type of meaningful growth. Most of the world remains crippled by an excess amount of debt, which creates a significant economic headwind. These headwinds will force Central Banks to remain accommodative, which should be supportive of the equity markets. At the beginning of the year, most economists were forecasting that the Fed would raise interest rates four times in 2016. Currently, Wall Street expectations are for only two hikes. We believe only one hike is likely and would not be surprised to see none at all. Last quarter, approximately 350 companies from the S&P 500 cited the strong dollar as a headwind for their revenue and earnings. If the Fed were to aggressively raise rates, the dollar would strengthen and further pressure corporate earnings.

Fortunately for multinational corporations, the dollar has weakened recently. During the first quarter of 2016, the ICE Dollar Index, which measures the U.S. Dollar against a basket of six major currencies, fell 4.2%, marking its worst quarterly performance since 2010. This pullback in the dollar will help U.S. multinationals, as their goods become more competitive to their global counterparts as the dollar falls. Gold rallied 16.5% during the quarter as the dollar fell as investors sought a "safer haven" from the volatility of the equity and commodity markets.

While further volatility can never be ruled out, we see opportunities in the stock market. As much as earnings and revenue growth will remain challenging, low investor expectations could result in positive surprises. Furthermore, currency headwinds should dissipate as the dollar retreated in the first quarter.

Finally, we believe the U.S. presidential election merits watching as the upcoming conventions may hold a few surprises. While we concur with several recent polls, that show John Kasich as the most "friendly candidate" for the economy and financial markets, it is more than apparent that his candidacy is unlikely to result in a nomination. Keeping in mind that most believe Hillary Clinton has the most likely chance of becoming our next president, there is an old saying on Wall Street worth noting: "The stock market can handle good news and bad news. What it hates is uncertainty." Clinton seems to be somewhat of a 'known quantity', and as such, we do not anticipate much impact to the stock market if she wins in November. The same cannot be said for the two anti-establishment candidates; Donald Trump and Bernie Sanders. We believe Wall Street would have a negative response should either of them win in November. It is important to note that this is not our political preference, but instead a forecast based on recent polling data.

The markets are constantly changing, but our priorities remain the same: to work diligently and ethically every day in the attempt to provide our clients with outstanding risk adjusted performance. We sincerely appreciate the trust you have placed in us by allowing us to serve as your investment adviser.

Kindest regards,

MAP's Investment Team:

*Michael S. Dzialo, Peter J. Swan, Karen, M. Culver, John F. Dalton and Zack S. Fellows*

*For more information on regarding our latest thoughts on the financial markets and the economy, please visit our website at* www.managedassetportfolios.com. *Our quarterly webinar will be posted May 5th, 2016.*