1st Quarter Market Review

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As we round out the first quarter, let's take a look at three key themes that have already left their mark on the economy and markets in the New Year, and very well may continue to do so for the rest of 2016.

Energy

Without question, the most influential market variable in the first quarter has been energy. This is because the correlation between market movements and energy has been nearly absolute. When energy prices go up, the market improves and sentiment strengthens. Conversely, when energy goes down, the market's view of the economy – and all the variables that go along with it – follow suit. As investors, we have experienced this volatility throughout 2015 and into the first quarter of 2016, especially as energy companies announced spending cutbacks and layoffs. In turn, many investors have come to believe that energy is the driver of the economy.

However, while movements in oil and gas greatly affect much of the global economy, they are not the sole driver of it. It is likely that the influences energy prices have had on market psychology are unwarranted, and that we ought to be looking at other economic measures as well.

Households

There are two sides of the energy equation. While we have certainly been made aware of the negative news of energy company cutbacks and earnings losses, we have not heard much about the positive side of a lower priced energy market, which is that consumer households are healthier due to inexpensive oil. Households are rerouting cash normally used for oil to savings, debt payments and spending. Credit default rates continue to remain low and consumers are spending on the goods and services that the companies we invest in produce, all of which is strengthening the economy. We believe that we'll continue to see improvement in household health over the course of the year.

Emerging Markets

In 2015, we saw a narrow segment of the market, namely high-growth technology and biotechnology, move to much higher share prices while the rest of the market sat still or declined. However, in the first quarter of 2016, market growth began to broaden and more companies began to participate in the move upward, pointing to a healthier market cycle.

One sector that has experienced especially strong growth since the market hit bottom in late January is emerging markets. From Jan. 20 to March 21, the DFA Emerging Markets Value Portfolio (DFEVX) was up 23 percent. This is a sign that global markets are feeling more confident about avoiding a recession and more optimistic that the economy is growing, albeit slowly. While we could certainly experience more volatility in this sector in the future, we expect emerging markets to perform well overall throughout the next several years.

In conclusion, we believe that the recent market momentum is a sign that global markets are likely ceding the point that we are not going into recession, and are beginning to price this into their values.

Sources:

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