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Nauset Market Commentary
First Quarter 2016

Market Performance Recap: **Wild Ride to Start Year**

The opening quarter of 2016 was a tale of two halves – a steep stock market decline to start the year followed by a sharp reversal as prices retraced losses. While the US large cap Russell 1000 closed the quarter slightly up at +1.2%, many indices ended in the red as the small-mid cap Russell 2000 fell -1.5%, and international stock MSCI EAFE was off -3.0%. Within stock sectors, utilities and telecom were up strongly, while healthcare and financials were down sharply for the quarter. With the Fed pausing on rate hikes, bond prices gained as the Barclays Intermediate Gov't/Credit Index increased +2.4%.

Economic & Market Discussion: **Focus on Earnings**

After the zigzag start to 2016, don't get too comfortable. We expect the markets to continue to be bounced around by fresh headlines on the Fed, China and the Presidential election. Through it all, we are focusing on one key factor: Earnings. We believe that an above-forecast recovery in earnings is the one driver that can push markets higher. Let's examine how this can happen.

- Growth – The six-week stock selloff to start the year was driven by a concern over global growth. An uptick in growth off lower expectations in the US and/or globally will help corporate earnings.
- Oil – A turnaround in oil prices in February spurred a stock rally that retraced earlier declines. Further recovery in oil prices will help energy sector profits and provide some relief for banks that are lenders to the sector.
- US Dollar Level – If the US dollar versus other key currencies fails to strengthen or declines, that would be a big plus for US exporters and their earnings in the latter half of the year.

While all three above scenarios may not happen, some combination would likely boost company earnings. As we see it, any upward movement in earnings growth will support higher stock prices, while any earnings slip will do the reverse. That's what we will be watching for as the year unfolds.

Portfolio Strategy: **Opportunity in Volatility**

In the today's volatile, low return expectation market, our managed risk approach is emphasizing the following strategies:

- Play Defense – We continue to focus on quality and use of alternatives in our asset class. Additionally, we are now at an equal weight for portfolio equity allocations.
- Get Paid – In most asset classes, we are searching for income and dividend plays that can provide some return as price appreciation appears limited in the near term.
- Buy Opportunistic– Market volatility is and will create opportunities in areas that we find attractive, particularly in high quality stocks in real estate, health care and tech. As such, we will selectively look to take advantage of these situations.

Market Performance % Change for Periods Ended 3/31/2016

Market Index	First Quarter	2016 YTD	1-Year	3-Year Annual.	5-Year Annual.
Russell 1000	1.17	1.17	0.50	11.52	11.35
MSCI EAFE – Non-US	-3.05	-3.05	-8.27	2.23	2.30
Russell 2000	-1.52	-1.52	-9.76	6.84	7.20
MSCI Emerging Markets Equity	5.71	5.71	-12.03	-4.50	-4.13
DJ US Real Estate	5.15	5.15	3.00	8.65	10.35
Bloomberg Commodity	0.42	0.42	-19.56	-16.87	-14.15
Barclays Gov't/Credit Interm. Bond	2.45	2.45	2.06	1.83	3.01
IQ Hedge Multi-Strategy	1.49	1.49	-1.71	3.14	3.20
3-Month T-Bill	0.05	0.05	0.08	0.05	0.06

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