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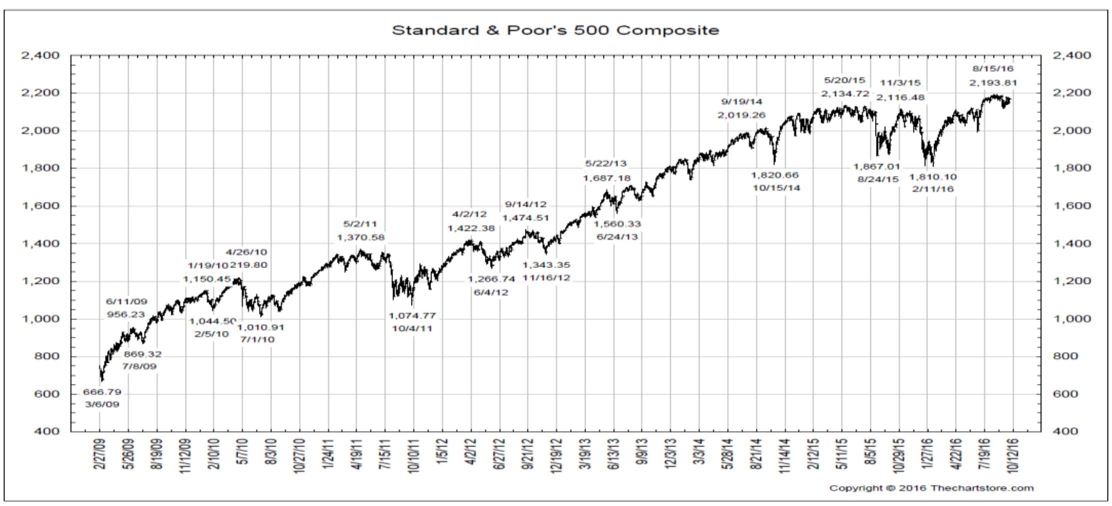
AAFMAA Wealth Management & Trust LLC

MARKET OUTLOOK

3rd Quarter 2016 Outlook

It's hard to believe that only one quarter ago, Brexit fears reached their peak. Since that time, markets have stabilized and volatility has subsided. The smooth, rapid transition that has taken place in England's government was a major factor in this stabilization. The new Prime Minister May swiftly and confidently moved forward toward formulating the Brexit strategy and guess what? The European economy didn't collapse, the U.K. economy didn't go into depression and the world did not end. There are signs of stress in the European banking system. This does not mean that the Eurozone will repeat 2008 or 2011. In fact, one could argue that we're seeing the opposite effect, in that the market identified a potential credit hazard earlier in the cycle. Look for European banks to begin raising capital over the next six months in an effort to strengthen their balance sheets. While there may be some "hand wringing" over a "European banking crisis" in the coming months, we believe it could offer additional buying opportunities for international stocks.

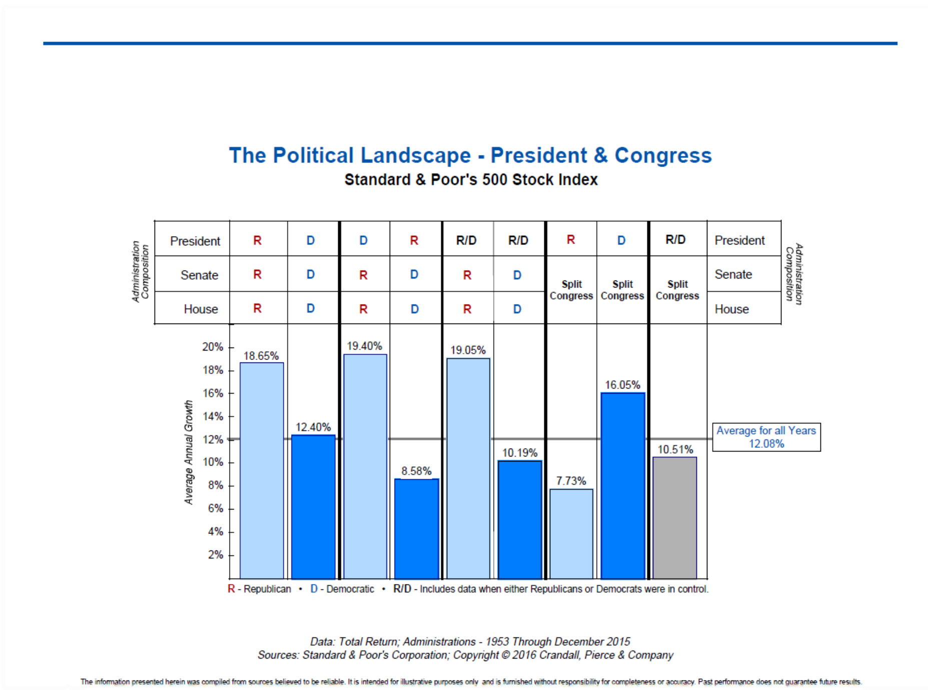


It's equally hard to believe that, even though the S&P 500 index reached an all-time high in August, it was actually a laggard among the various indices for the quarter. The S&P's 3.85% increase trailed the Mid Cap's 4.1% gain, while the Russell 2000 and NASDAQ Composite were up a whopping 9% and 10%, respectively. The laggards earlier in the year have now become the strong market leaders. Historically, markets view this as a positive sign, as buying interest spreads to more sectors. This would also indicate a belief among investors of a continued modest expansion in the global economy. All in all, **the third quarter fully displayed the benefits of both diversification and long term investing**, as European stocks also rebounded post Brexit, increasing 5%, and emerging markets posting a 9.0% gain.

Post Brexit, attention has begun to turn away from Europe and back to our own Federal Reserve and the upcoming election. The Fed continues with its on-again, off-again data driven comments concerning interest rate increases.

While markets currently believe a 0.25% increase could occur in December, the bigger picture for rates remains subdued, thanks to continued low inflation and labor costs. The yield curve – plotting interest rates from one to 30 years in maturity – continues to demonstrate that the inflationary outlook among investors remains positive, thereby favoring continued low interest rates for the foreseeable future.

Now, a look ahead at the election. Members have asked us on more than one occasion if the market would favor one candidate over another. We'll let history be our guide (as we do on many of our forecasts) and show stock market results during past combinations of Republican/Democrat, President/Congress. The chart below goes back to the Eisenhower Administration and gives market performance during various combinations of politics. It's interesting to note the combinations that clearly perform well, while also recognizing some surprising results. The take away for us is that regardless of who is in office, the American economy always manages to move ahead. It is a tribute to the innovation, technology and efficiency of American industry that the market has averaged over a 12% annual return during this period – despite the various political combinations during that time.



Regardless of the volatility or uncertainty the election may (or may not) bring, **we continue to believe that economic conditions favor the equity markets.** Corporate earnings have been generally favorable, while interest rates and inflation remain at historically low levels. We continue to emphasize value oriented securities for the equity portion of portfolios, along with intermediate corporate bonds for the fixed income allocation. In our current economic climate (slow growth, low inflation), markets have historically favored value type investments. We will continue to focus in that area until economic conditions change.

Now that markets have rebounded a bit, take time to reassess your risk posture and investment horizon. Talk with your account administrator, relationship manager and investment officer to make sure you correctly calibrate your investment risk for your situation. Proper risk assessment better enables you to stay the course through all types of markets. Any long term investment strategy should include ongoing risk management and you can always rely on the expertise of **AAFMAA Wealth Management & Trust** to assist you with that review.