TRUSTCORE®

Market Commentary
Second Quarter 2016

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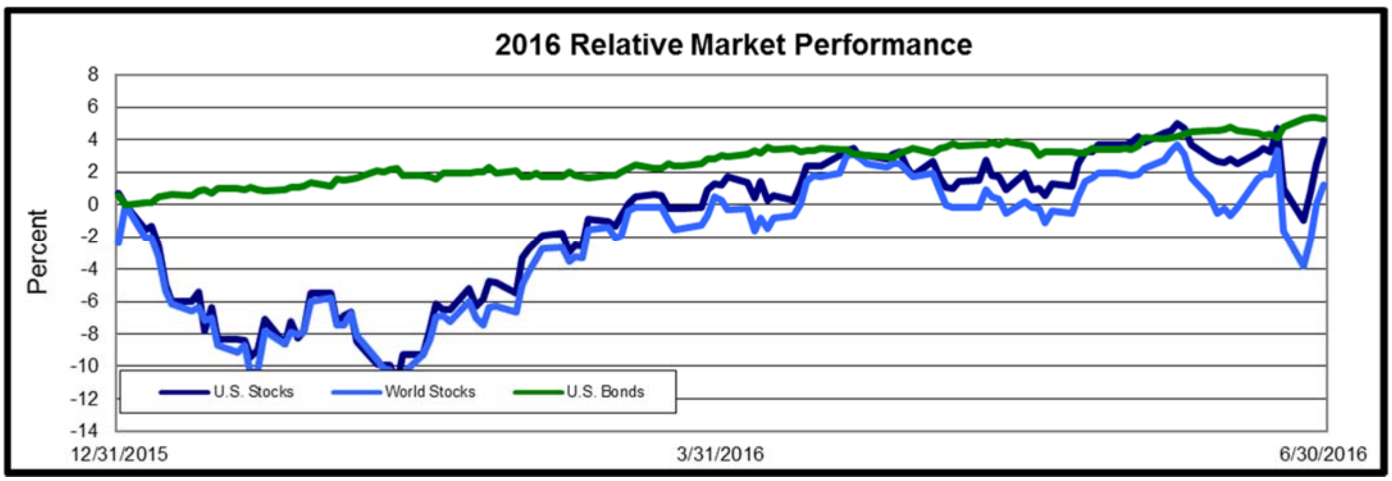
As of 6/30/16

Market Performance	2015 4Q	2016 1Q	2016 2Q	YTD	1 YR	3 YR	5 YR
Dow Jones Industrial Average (U.S. Large Stocks)	7.70	2.20	2.07	4.31	4.50	8.99	10.41
Standard & Poor's 500 (U.S. Large Stocks)	7.04	1.35	2.46	3.84	3.99	11.66	12.10
Wilshire 5000 (U.S. Stocks)	6.36	1.17	2.78	3.98	2.96	11.26	11.64
MSCI EAFE (Foreign Stocks)	4.71	(3.01)	(1.46)	(4.42)	(10.16)	2.06	1.68
MSCI EM (Emerging Market Stocks)	0.66	5.71	0.66	6.41	(12.06)	(1.56)	(3.78)
MSCI ACWI (World Stocks)	5.03	0.24	0.99	1.23	(3.73)	6.03	5.38
Barclays Capital U.S. Agg. Index (U.S. Bonds)	(0.57)	3.03	2.21	5.31	6.00	4.06	3.76

Performance Review

Inside This Issue

Global equities were surprised by the news that U.K. voters decided to leave the European Union (E.U.). The outcome of the referendum triggered a risk-off environment that saw equities fall as investors sought safety. The surprise vote left in its wake a period of uncertainty, the likely outcome of which is lower growth across the U.K. and Europe as confidence wanes. An uncertain political landscape will further add to volatility as populist sentiment has increased globally. Though markets did stabilize and rebound, government bond yields across major developed markets remained lower. The yield on the benchmark 10-Year U.S. Treasury bond ended the second quarter at 1.47%. Moreover, 10-Year German bonds moved into negative territory, a signal of investor uncertainty and possible economic difficulty moving forward.



Interest Rates

Following a weak employment report and uncertainty surrounding the U.K. referendum, the Federal Reserve voted to leave rates unchanged in June and will most likely continue to hold in July and September. Furthermore, the Fed's long-term view is set to converge with the market view that rates will be lower for much longer than anticipated. Current macro events have played into the Fed's hesitance to raise rates in the short-term, but structural changes in the U.S. economy have driven long-term rate estimates lower. As the future growth outlook has converged with the post-recession average near 2.0%, so too has the estimated equilibrium rate moved lower looking forward. For the business sector, the cost of capital investment will remain low, while homeownership and other goods and services will remain affordable for the consumer.

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In Europe, the Bank of England (BoE) and the European Central Bank (ECB) will likely remain in a holding pattern for the short-term as they reflect on the outcome of Britain's vote to leave the E.U. Markets have found stability after the initial shock of the news, but further stimulus will likely be needed. With interest rates already at historic lows across Europe and some in negative territory, the effectiveness of additional rate reductions may be questioned. The BoE may choose to lower its base rate which currently stands at 0.50%, but the ECB is already at 0.00% meaning an expansion of their current asset purchase program may be a logical next step.

Global Growth Prospects

First quarter domestic growth came in at 1.1% which is lower than expected, but higher than previous estimates. Weak consumption and capital investment caused a drag on growth, but initial indications of consumption in the second quarter point to a substantial improvement. Estimates of second quarter growth are closer to 3.0%. The U.K. departure from the E.U. should have minimal impact on the U.S. economy as very little domestic GDP depends on the U.K. Expectations are for growth to remain near 2.0% in 2016.

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A negative economic impact in the U.K. and Europe is more likely than in the U.S. following their split. As of now, business will stay the same, but confidence will take a hit and behavior will change amid the uncertainty. The process of renegotiating a relationship that had lasted for decades will probably take longer than the initial two year window the U.K. will be given; however, both sides in the debate have a strong interest in maintaining their relationship. The hope is that the E.U. does not make the process more onerous than need be and that both sides focus their efforts on maintaining an open relationship.

Corporate Earnings Growth

The S&P 500 currently trades at 18.5 times estimated full-year 2016 earnings. Over the course of the last quarter, downward revisions to the calendar year 2016 earnings estimates have slowed; however, recent macro events may have a short-term impact. Earnings for U.S. companies with foreign revenue streams could see a negative currency effect if the U.S. dollar continues to strengthen. Also, weaker than anticipated consumption in the U.K. and Europe would adversely impact earnings. In Europe, financial stocks have been the most negatively impacted, but longer-term a weaker British pound would be beneficial for trade.

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Summary

In hindsight, leaving it up to the populace to vote on a far reaching act as the U.K. leaving the E.U. was likely a bad political decision. Over time the outcome may prove to be the right decision for the U.K., but a well thought out process in advance of such an outcome would have been more preferable. Fortunately, the fallout from the vote in the short-term has been minimal and the stability that we have seen will provide some time for the U.K. and the E.U. to reflect and act more deliberately. Political instability across Europe will be a definite headwind and the course of action taken over the coming years will determine its future. Hopefully, the E.U. can use this as a catalyst to resolve some of its structural problems. During times of uncertain markets, investors have a tendency to overreact, but at TrustCore we focus on the long-term fundamentals to find potential opportunities.

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In volatile markets investors should remain focused on their long-term objectives. Asset allocation strategies developed for a portfolio provide a roadmap to follow in times of duress. Steps may need to be taken to ensure capital preservation, but must be weighed against their potential impact on long-term performance. Implementing a disciplined, strategic approach with portfolio allocation across varying asset classes is an important element of a successful investment strategy. That's why at TrustCore, we believe in creating a customized, well-diversified portfolio to help you meet your long-term financial goals.