QUARTERLY INVESTMENT REVIEW & OUTLOOK

People's United Wealth Management

Investing When Emotion Trumps Economics

by John S. Traynor, EVP, CIO

The Rolling Stones released their hit song "Emotional Rescue" in 1980 amid an economic maelstrom marked by inflation at 13.5% and a Fed Funds rate of 19%. The song crystalized the financial zeitgeist of the time when investors, workers and voters felt helpless in the face of a declining economy and cascading markets. While the U.S. economy is in much better shape today, the emotional response to our collective angst over current economic challenges was most visibly captured by voters on both the left and right in this year's primaries. Voters are unhappy, and they voted for those candidates promising to "shake things up" even though the details on how this would happen were vague at best. In the United Kingdom, voters opted for the "unknown" by voting to leave the European Union rather than the "known" dissatisfaction of membership. Global investors have expressed their dissatisfaction by seeking the relative safety of government bonds, even though interest returns on many of these bonds are negative. ***Voters and investors are frustrated and confused, and their actions have amounted to a vote of no confidence in the policies of the political class.***

The frustration over stagnant wages and poor job growth, that Donald Trump and Bernie Sanders tapped into, since the end of the last recession in June 2009, has been met by peripatetic Central Bankers and equally ineffective politicians with their inconsequential solutions to the global challenges of the day. As we have written in prior issues, we believe the primary reason the central bank policy of ***Quantitative Easing*** (QE) has failed to lift economic growth to desired levels is because it has not been accompanied by ***Qualitative Stimulus*** from our politicians. By *Qualitative Stimulus*

(Continued on pg. 2)

Economic Dashboard		
Economic Growth	Positive	July marks the start of the eighth year of the current expansion in the U.S. The U.S. economy has significant momentum and no overheated sectors. We expect slow growth to continue and look for year-over-year GDP growth of about 2.0%.
Employment	Positive	The rate of job growth appears to have decelerated, which is to be expected in the later stages of an expansion. Labor market activity continues to increase, however, with the number of job openings, new hires, and quits increasing. The number of job openings nearly matches the number of unemployed. We expect net job growth to continue but at a slower rate.
Profits	Positive	Revenue growth has been restrained by the slow expansion domestically and a stronger dollar. The earnings of the energy and materials sectors have both been severely impacted by low oil prices. With the recovery in oil prices and the recent stabilization of the dollar, we expect profits to increase moderately in the second half of this year.
Inflation	Neutral	The inflation picture is mixed. Global over-capacity is depressing the cost of finished goods. Slower growth in China is restraining commodity prices, but a reduction in the oversupply of oil has led to oil price increases. Wage and salary pressures are increasing in selected businesses and are likely to become more widespread. We expect headline inflation to increase to 2.0% by year-end.
Interest Rates	Negative	The Fed held off again on raising the target Fed Funds rate in June. The weak May jobs report undercut the case for a near-term rate hike. International conditions are increasing in importance as low rates overseas leak into U.S. markets. We continue to expect a slow and gradual normalization path for interest rates with perhaps one rate hike before year-end.

Positive Neutral Negative

we mean policies designed to lower hurdles to business formation and growth combined with pro-growth tax policies. Japanese investors are still waiting for Prime Minister Abe's third arrow of fiscal stimulus and regulatory relief. European investors have been forced to watch the 28 governments of the EU squabble to the point where the U.K. will now leave the economic union altogether. U.S. investors have watched cash balances pile up on corporate balance sheets and record numbers of eligible workers leave the work force because of a collective lack of confidence in our slow-growth economy.

The Answer To Our Struggles?

While there are many individual ideas, the key is the development of a bipartisan *Qualitative Stimulus* program designed to spur individual creativity and initiative. The "Better Way" reforms introduced by House Speaker Paul Ryan are a great start to a bipartisan debate on spurring growth in the U.S. economy.

To those tempted to say we have tried everything already and that policies don't really matter anyway, we point to three of the greatest examples of how a difference in political and fiscal policies can affect economic growth in the post-WWII period.

1. *North vs South Korea*
2. *East vs West Germany*
3. *Mao-led China vs Deng-led China*

Each of the communist governments controlled and directed their economies to the point of famine and ruin. Their more open sibling has flourished by opening the floodgates of human initiative.

Chart 1:

MARKET BALANCE SHEET	
POSITIVES	**NEGATIVES**
1. U.S. employment strong	1. Market fairly valued, not cheap
2. U.S. wages rising	2. Chinese economy slowing
3. Consumer spending solid	3. Europe & Japan are stuck in slow growth malaise
4. Energy prices low	4. Slow earnings growth
5. Central Bankers supportive	5. Election uncertainty in U.S.
6. U.S. economy growing	6. Implications of Brexit

Source: People's United Wealth Management

Chart 2:

ASSET ALLOCATION WEIGHTINGS			
	Overweight	**Neutral**	**Underweight**
Stocks	- U.S. equities	- Large/Mid/Small cap - Growth/Value - Developed International Equities	- Emerging markets
Bonds	- Corporates - Treasuries	- Mortgages	- Emerging Markets - High Yield
Alternatives			- Real Estate - Commodities - Precious Metals

Source: People's United Wealth Management

While famine is not our problem today, voters in the U.K. and the U.S. are certainly ***starved for competent leadership*** in Westminster and Washington. We hope the coming election debates between Hillary Clinton and Donald Trump focus on which candidate has the best plan for growing wages and prosperity across the spectrum of incomes. In 1980, voters in the U.S. looked to Ronald Reagan to come to their emotional rescue. Will it be Clinton or Trump in 2016?

Mid-Year Update

The uncertainty about the impact of Brexit has caused investors to seek safety in "safe haven" assets such as Treasuries and German sovereign bonds and in "safe haven" currencies such as the dollar and the yen. Investors have reduced risk by selling equities

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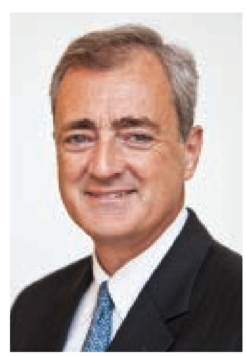


John S. Traynor
Executive Vice President
Chief Investment Officer

The Bond Market: Holding Up a Mirror to the Global Economy

by Karissa A. McDonough, CFA

The current state of the global economy presents bond investors with a special set of challenges due to unique circumstances: historically low interest rates globally, extreme levels of monetary policy support, late business cycle-style economic activity.

We have written a fair amount in these quarterly pieces about the "transitional" nature of the current bond market. The transition we were referring to was a transition away from Federal Reserve support of the capital markets through repression of interest rates, back to market pricing of risk.

More recently, we are coming to the conclusion that the transition we are actually facing as bond buyers is a transition to a bond market where global demand for yield in the face of a stagnating economic environment is the biggest driver of interest rate direction and bond market performance.

Bond Investors should be asking themselves these questions:

1. *What do I need from my bond portfolio?*
2. *What is my time horizon for my bond portfolio?*

Investors might answer #1 with either Income or Stability. These are two sides of the same coin in a low rate environment. As 2/3 of bond returns are provided by the coupon, a healthy coupon ensures stability of returns. This relationship holds to a point however – there are no free lunches in capital markets, and an inordinately high yield bond likely comes with an outsized level of credit or default risk which presents principal risk.

The answer to #2 determines in large part the way a bond portfolio should be constructed. In fixed income, the way to generate return is to assume some level of risk – whether it is interest rate risk, or credit risk, or liquidity risk. The longer the bond portfolio has to generate income and return, the more tolerance the investor likely has to endure varying degrees of principal risk during intervening market cycles.

Our View On Rates

We believe the Treasury yield curve will continue to face flattening pressure. Interest rate risk appears more pronounced in the front end of the yield curve than has been the case historically. Shorter interest rates have exhibited the highest degree of variability recently as the Fed continues to push the idea of a second rate hike on the market. So interestingly enough, longer maturities have not exhibited historical levels of price volatility due to the continued foreign demand for yield. A 10 year U.S. Treasury yielding 1.70% is very attractive relative to zero or even negative rates offered by German and Japanese government debt, for example. We recommend that investors avoid making significant bets on either rising or falling interest rates at this point in the credit cycle, and construct portfolios with durations that roughly track the broader bond market.

Our View On Credit

The record level of bond issuance the past few years means that a substantial portion of borrowing entities have successfully refinanced maturities. Therefore, for many companies, no "maturity wall" is pending meaning default risk has been reduced meaningfully. An interesting note for corporate or municipal bond investors is that as the Treasury yield curve flattens (the yield difference between short and longer maturities shrinks), the spread curve actually steepens. This means that the difference in yield spread between a 10 year corporate bond and a 10 year Treasury is larger than the difference in spreads between a 2 year corporate and the 2 year Treasury note. We recommend that credit investors take advantage of the higher yield spreads relative to Treasuries in longer maturity corporate and municipal bonds relative to shorter maturities.

Karissa A. McDonough, CFA
Director of Fixed Income Strategy

U.S. Investors Shouldn't Fear the World

by Albert J. Brenner, CFA

Key Points:

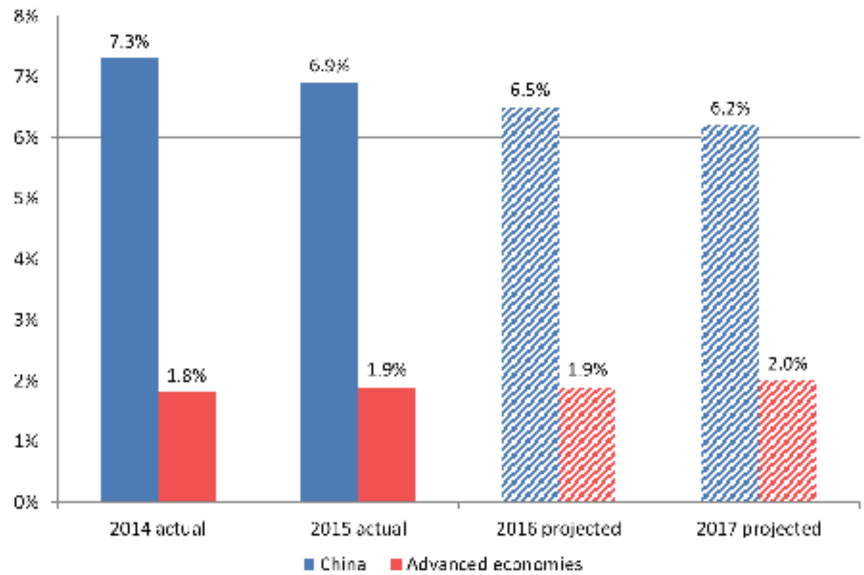
1 Global economic conditions pose a small risk to the largely self-contained U.S. economy. The country's fourth-longest expansion since 1930 will continue with little risk of a recession. We recommend staying overweight in U.S. stocks.

2 The U.S. trade deficit remains moderate by recent measures. The economies of America's major trading partners are improving and will support U.S. exports.

3 The dollar is moderately over-valued and likely to increase modestly in value in 2016.

4 An improved balance globally between supply and demand for crude oil will support prices, setting up conditions for a recovery in the domestic energy sector and a boost to GDP.

Chart 1: **Actual and Projected Real GDP Growth**



Source: International Monetary Fund, World Economic Outlook, April 2016

Despite the low risk of a recession from domestic economic conditions, investors worry that foreign conditions may hurt the U.S. economy. We don't think these worries are warranted. The impact of international trade, the value of the dollar, and slowing growth in China are all manageable. The U.S. will benefit from improvement in the global supply-demand balance for oil. The U.S. economy will continue to expand, supporting an overweight to U.S. stocks. Investors should not reduce their equity allocations on the basis of concerns about the global economy.

U.S. Growth Continues in 2016

The U.S. economic expansion that began in 2009 is now the fourth longest since 1930. January's stock market sell-off sparked fears about a near-term recession, but it proved to be a false signal. The economy grew at an annual rate of 0.8% in the first quarter, and growth in the second quarter is projected to be between 2.5% and 3.0% annualized.

We expect the U.S. economy to continue to expand. As we said last quarter, neither the slow pace of the current expansion nor its length mean it will end soon. Positive signs include modest but sustained consumer spending, low levels of total consumer debt (despite student loans), increases in household formation, a recovery in the housing market, improved state and local government budgets, and the absence of over-heating in any sector of the economy. The growth rate is likely to remain modest, but the probability of a near-term recession remains low.

Global Economic Weakness

It used to be said that when the U.S. sneezed, the world caught a cold – meaning that when the U.S. economy slowed down, so did the global economy. Today that may be truer of China, because its growth has provided the largest stimulus for the world economy and its Asian and emerging market trading partners in particular. When China sneezes, much of the world does catch a cold.

China's economic growth has slowed in recent years, with 6.2% growth projected for 2017 versus 7.3% in 2014 (as shown in chart 1). Does this slowdown count as a sneeze? We do not think so. Although the growth rate has slowed, growth in 2016 and 2017 will be more than in 2014 and 2015 simply because the economy is larger. Thus, the projected deceleration in China's growth will not reduce global growth.

Growth throughout the rest of the world will be much weaker. The advanced economies are expected to grow at a rate of only 1.9% in 2016. Excluding the United States, the rate would be lower because growth for the euro area and Japan are projected at 1.5% and 0.5% respectively for 2016. Global growth is projected at 3.2%, 0.1% more than in 2015.

The U.S. Economy is Relatively Self-Contained

Much of the world is vulnerable to global economic conditions because of a heavy reliance on trade. For example, exports from Vietnam – a nation with a population larger than Germany – account for more than 80% of that nation's GDP. World trade and the state of the global economy are vital to its prosperity.

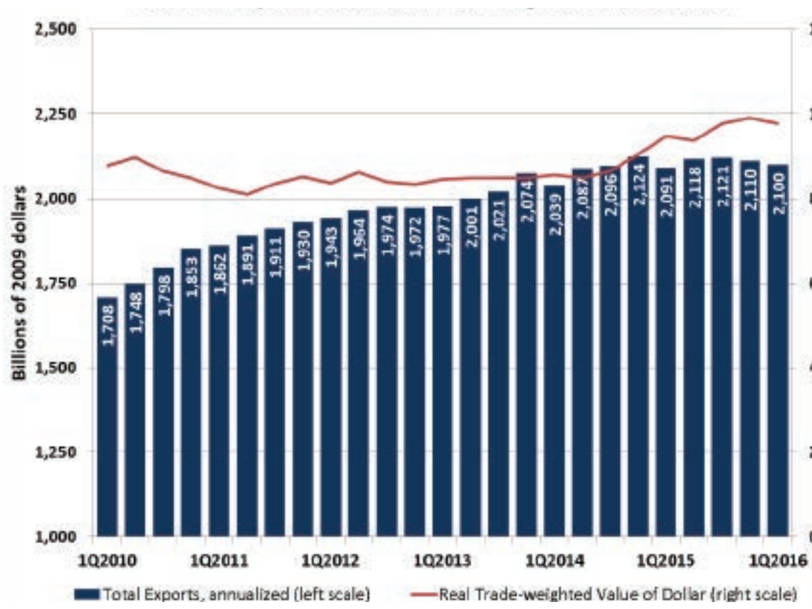
The United States, by contrast, is relatively self-contained due to its size and wealth. Exports account for just 13% of U.S. GDP. Exports do matter, though. A 10% reduction in exports would reduce overall GDP growth by half, from 2.0% to 1.0% for 2016.

U.S. exports are relatively safe. Canada, the European Union, and Mexico are the three largest markets for U.S. exports, with China a distant fourth (with about half the volume of Mexico). A slow recovery in Europe, and a comparatively strong economy throughout North America will continue to support U.S. exports.

What about the effect of a stronger dollar on exports? Export volumes have proved resilient, despite a stronger dollar making them more expensive. As chart 2 shows, total exports declined just 1.2% from their peak in the fourth quarter of 2014 during a period when the dollar appreciated more than 9%. Recent changes in the value of the dollar have actually reduced its value, thereby making U.S. goods and services less expensive to the world.

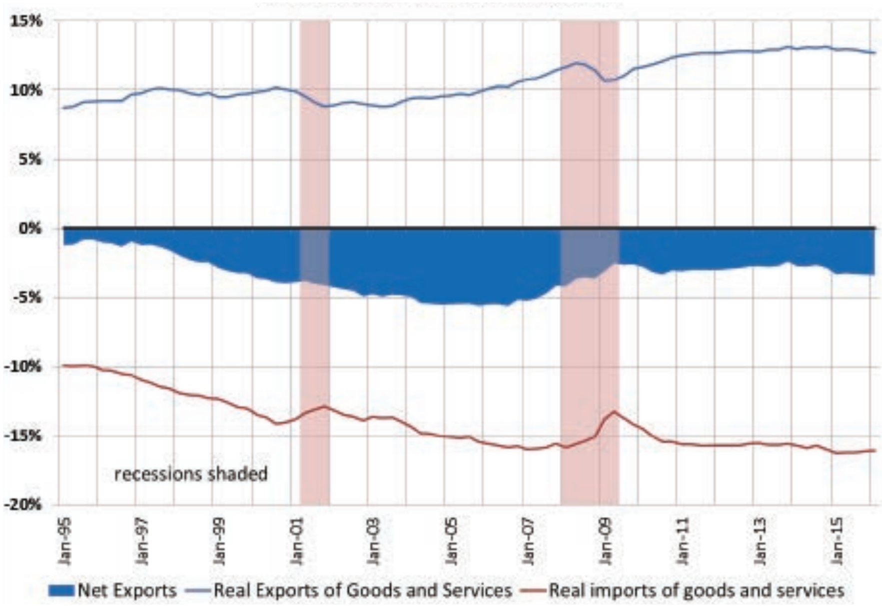
Imports also matter because imported goods and services take the place of what Americans would have provided and the U.S. is the world's largest importer. To the extent that imports exceed exports, GDP is reduced. The trade deficit reduced GDP by 2.9% in 2015 compared to 3.0% in 2014.

Chart 2: **U.S. Total Exports vs Real Trade-Weighted Value of Dollar**



Source: Bureau of Economic Analysis and Board of Governors of the Federal Reserve

Chart 3: **U.S. Exports and Imports as % of GDP**



Source: Bureau of Economic Analysis

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Since the financial crisis, the trade deficit has shrunk from over 5% of GDP to just over 3%, as shown in Chart 3. The stronger dollar has made foreign goods less expensive with the result that Americans are buying more imported consumer goods. The good news is that reduced crude oil imports have nearly offset the increase in imported consumer goods.

U.S. Dollar Strength Manageable

Although a stronger dollar in 2015 impacted both imports and exports, the net effect on U.S. economic growth was manageable. The trade deficit reduced GDP by 2.9% in the fourth quarter of 2014 and by 3.4% one year later. The average reduction during the current expansion has been 3.0%.

The dollar is currently overvalued by 7% according to the Peterson Institute for International Economics. This overvaluation is probably due to the market's over-reaction to bond-buying announcements by the Bank of Japan in late 2014 and the European Central Bank (ECB) in early 2015. When the ECB announced the start of its bond buying program in January 2015, it was widely expected that the euro would decline to reach parity (1 euro = 1 dollar) by year end. Those expectations were not realized. The euro declined in value from $1.21/euro to $1.09/euro over the course of 2015, but gained in value to $1.12 as of June 16 of this year.

How will the dollar fare in the future? Its value relative to other currencies is determined by a complex set of factors including the size of the trade deficit itself, the level of interest rates and the expected rate of inflation. With interest rates moving up in the United States as they move down in Europe, Japan, and China, the dollar becomes more valuable if all other things remain the same. Other factors come into play, however. Europe, Japan, and China have trade surpluses, the United States does not. The U.S. trade and budget deficits make the U.S. dependent on foreigners willing to invest in the U.S. to balance total fund flows. These deficits put downward pressure on the value of the dollar, as evidenced by the broad long-term decline in its value between 1980 and 2010 during which the dollar declined 35% against the Swiss franc, 62% against the yen, and 22% against the trade-weighted basket of major currencies.

We expect the dollar to appreciate about 3% in 2016, compared to 10.5% in 2015 as measured against the basket of all trading currencies. This very modest appreciation will not materially affect the terms of trade or increase the drag of net exports on U.S. growth.

Crude Oil Is a Plus for the U.S. Economy

The price of crude oil will also factor into the impact of trade on the U.S. economy. The global oversupply of oil throughout 2015 drove prices to below $30 per barrel in January of 2016. Lower prices dramatically impacted domestic exploration. The number of oil drilling rigs in operation dropped from 1,482 at the end of 2014 to just 316 in May of this year. Drilling and exploration budgets fell by nearly $50 billion from 2015 to 2016. Since January oil has risen to $50 per barrel in anticipation of a reduction in the oversupply. U.S. crude oil production is projected to decline from 9.4 million barrels per day (mb/d) in 2015 to 8.8 mb/d in 2016. As U.S. production declines, the volume of imported crude has increased from 7.1 mb/d in April of 2015 to 7.8 mb/d this year.

We expect the global imbalance between supply and demand for crude oil to decrease in 2016. As global consumption of energy increases – particularly in China where new car sales are running at 24 million vehicles per year compared to 17 million in the U.S. – and supply is restrained by cutbacks in exploration, oil prices should remain at or above the current level of $45 to $50 per barrel level. At this price level, domestic drilling is likely to increase. Although higher oil prices increase the cost of imported oil and the net export deficit, they will spur more domestic production and support the oil services and basic materials industries, which were hard hit by the sharp decline in exploration. These secondary effects will more than offset the modestly higher drag on growth by higher crude oil import prices. Since April 2015, lower oil prices have reduced the cost of imported oil by $20 million per day, or $7.5 billion per year, taking into account the increased volume. Compare this savings to the $50 billion cut in exploration budgets.

In Conclusion

Investors should not fear the impact of the world economy on the U.S. The U.S. economy will continue on its slow growth path driven by domestic conditions with global conditions being neutral to positive. Growth in Mexico, Canada and the European Union will support U.S. trade. China will continue to be the largest source of global growth even as its pace of growth slows. The dollar will strengthen very moderately but not to the point of appreciably increasing the trade deficit and retarding domestic growth. Global oil prices will moderate and support some renewal of domestic exploration and development.

Investors should take comfort in this outlook. World economic trends do not threaten the American expansion. U.S. economic prospects continue to warrant an overweight to equities.

A Note on Brexit

Britain's vote to leave the European Union (EU) occurred just before this issue went to press. In our estimation, Brexit will have little direct impact on the U.S. economy despite the immediate impact it has had on capital markets here and abroad. How this political event ends up affecting the economies of the UK and the EU remains to be seen. The common wisdom is that both may suffer, with the UK suffering the most. The decline in the value of the pound, however, has made British goods more affordable. The impact on the EU will depend on market confidence about its viability. Although that confidence was shaken by the vote, much will depend on the exit negotiations and the EU's response to euro-skeptic dissatisfaction within the union. We expect economic growth within the EU to continue albeit at a slower rate than in the U.S.

Albert J. Brenner, CFA
Director of Asset
Allocation Strategy

July 2016 Quarterly Investment Review & Outlook

ASSET ALLOCATION DASHBOARD

Outlook	Asset Class	Sub-class	Comment
Positive	**STOCKS**		We remain overweight in view of relative return prospects.
		Positive	**UNITED STATES**	Overweight. The U.S. is the best of developed economies. Valuations are above long-term averages, but profit recovery should support returns.
		Neutral	**INTERNATIONAL DEVELOPED**	Neutral. Britain's vote to leave the European Union creates uncertainties that will weigh on investor sentiment despite the support from Central Bank bond buying programs.
		Negative	**INTERNATIONAL EMERGING**	Underweight. Slower growth in China, low commodity prices, need for structural reform, and exposure to U.S. interest rates make EM equities vulnerable despite favorable valuations.
Negative	**BONDS**		Underweight. We remain underweight in view of very low yields. Slow normalization of interest rates will permit low positive returns, but rapid rate increases will impose losses.
		Positive	**TREASURIES/ AGENCIES**	Overweight. For higher systemic risk protection in view of location in business and credit cycles.
		Positive	**CORPORATE BONDS**	Overweight. Favorable spreads over Treasury yields enhance returns and provide some return protection as rates increase.
		Neutral	**MORTGAGE BONDS**	Neutral.
		Negative	**HIGH-YIELD, EMERGING MARKET, CONVERTIBLE**	Underweight. Riskier sectors offer some return enhancement, but potential rotation out of higher risk categories warrants underweight.
Negative	**REAL ASSETS**		Underweight. Real estate valuations remain above average. Outlook for commodities remains negative due to oversupply. Strong dollar and low inflation reduce risk-adjusted diversification benefit of gold.
Neutral	**CASH**		Neutral. Despite near-zero returns, low expected returns on other assets reduce opportunity cost of holding cash.

This table provides a condensed view of our current tactical asset allocations and outlooks by asset class.

Positive Neutral Negative

Emerging Market Equities

by Celia Cazayoux, CFA

Investors build investment portfolios at the highest level by allocating exposure to cash, equities and bonds. Attention then turns to the sub asset classes allocation, which within equities refers to domestic and international as well as large, mid and small cap stocks. Over the past 10-20 years, investors have further refined the allocation to international equities to include emerging markets given the economic growth in these economies. The acronym, BRIC (Brazil, Russia, India, China), was originally coined in 2001 by Jim O'Neil of Goldman Sachs, and refers to the five major emerging national economies. With South Africa included in 2010, the five BRICS represent 42% of the world's population and almost 20% of the gross world product.

"...THE FIVE BRICS REPRESENT 42% OF THE WORLD'S POPULATION AND ALMOST 20% OF THE GROSS WORLD PRODUCT."

Twenty years ago, investors had limited choices for access to emerging markets. Since then, the universe has greatly expanded to over 300 mutual funds and ETFs. While the numbers have certainly grown, so has the diversity and complexity of investment choices to include small cap companies, as well as frontier markets. Even the broad emerging market indexes, which already differ by country exposure, are continuing to evolve as they approach the addition of mainland-traded Chinese stocks, A-shares, differently.

Emerging markets have developed in their own right and have become an important component of a diversified portfolio. Once the decision is made to provide an allocation to emerging market equities, the next step is to select the investment strategy that provides the desired exposure investment experience. As noted earlier, this is not a homogenous group, therefore it is important to understand a fund's country and sector exposure, as well as its investment process.

"...WE UTILIZE THE OPPENHEIMER DEVELOPING MARKETS FUND."

In the portfolios we manage for our clients, we utilize the Oppenheimer Developing Markets fund. This strategy has a well-established track record for investing in emerging market equities. The manager focuses on finding companies with competitive advantages and healthy cash flows that can endure during periods of economic difficulty. Additionally, this manager places value on strong corporate governance which ultimately prioritizes shareholder interest. Finally, the fund does invest in certain themes, such as rising mass affluence and new technologies. As a result, this fund's holdings will differ from those of the emerging market index (MSCI EM) which is heavily weighted toward government-controlled banks in China and technology companies in South Korea. As a result of these differences, the fund's performance is not expected to tightly track that of the index.

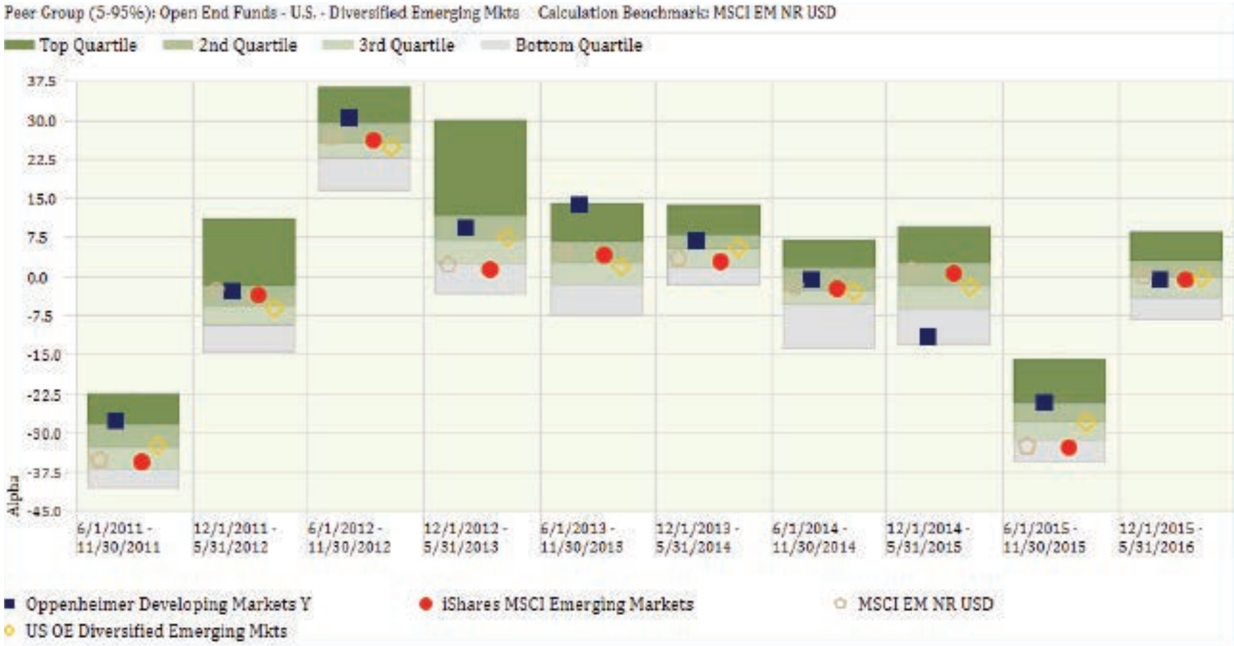
Chart 1 illustrates the fund's rolling 6 month return in excess of the benchmark (or alpha) compared to the iShares MSCI Emerging Market ETF (EEM), the MSCI Emerging Market Index and the Morningstar Category Average of Emerging Market funds.

As seen in chart 1, the fund's performance versus the index or passively managed ETF varies over shorter-term measurement periods. Clearly, in the 6 month period from December 2014 through May 2015, the fund lagged, a period of strong performance from China and Russia. In contrast, the fund added Alpha during the following six month period from June 2015 through November 2015, a period in which emerging market equities declined roughly 20% following China's currency devaluation in August.

As chart 2 depicts, over longer time frames the fund has clearly added value primarily through prudent stock selection and important downside protection during volatile periods making for a smoother investment experience.

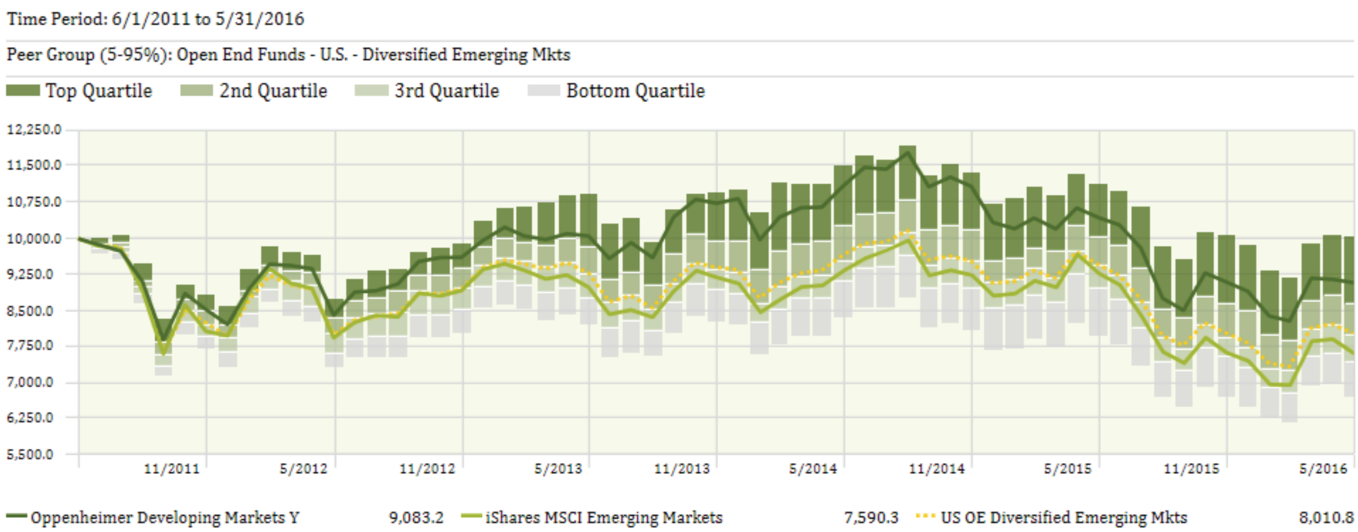
Celia Cazayoux, CFA
Director of Manager Strategy

Chart 1: **Rolling 6 Month Alpha**



Source: Morningstar

Chart 2: **Short Term Investment Growth of $10,000**



Source: Morningstar

The Second Half of 2016 Will Make the Glass Half Full

by John Conlon, CFA

How about a pop quiz? Is a strong dollar good or bad? Is a low price of oil good or bad? The answer to both questions is yes. That guiding piece of advice of 'everything in moderation' applies not only to life but economics as well. (As you can tell by the picture of me at the end of the piece, I sometimes have trouble following that advice.) Too much of a good thing is not a good thing.

"...EVERYTHING IN MODERATION APPLIES NOT ONLY TO LIFE BUT ECONOMICS AS WELL."

Although a strong dollar is indicative of the strength and health of our overall economy, it can also be a hindrance to earnings growth. Over the past year, corporate earnings growth has been hurt principally by a strengthening dollar and by the low price of oil. The principal culprit has been the dollar which hurts earnings in two ways: making our goods less price-competitive in foreign markets and through currency translation effects, i.e., converting revenue in foreign currency to dollars. However, with the majority of the gains in the dollar well behind us, currency translation effects should not have a major impact going forward. The net result should be improving earnings in the second half of this year.

The second drag on corporate earnings has been the low price of oil which has become a double-edged sword. Lower prices for oil obviously benefit the consumer through lower prices for gasoline and heating oil which has meant more money for the consumer to spend, save, and use to pay down debt. It also means lower costs to businesses as consumers of oil and fuel. However, the flip side of lower prices is that it means less profits for those companies producing oil and a slowdown for the businesses supporting those oil producers. Also, at too low a price, oil production becomes unprofitable, generating losses for oil producers and forcing some into bankruptcy. Chart 2 shows the dramatic drop in oil prices but also shows the more recent rise in prices putting us on a trend to a level that will still provide savings to consumers but yet return oil producers back to profitability and significantly lessen another negative to corporate earnings growth.

The end results of the trends in the dollar and oil prices is the expectation that we will return to earnings growth in the second half of the year after an anticipated five quarters of earnings declines. Earnings in the third quarter of 2016 are expected to be up 1.4% and earnings in the fourth quarter are anticipated to return to a more normalized growth rate of 7.5%. For all of 2016, this would yield earnings growth of 0.8%.

Why is this important? It is because the expectation of earnings growth should drive the stock market higher. Since the current bull market began in March of 2009, the S&P 500 is up about 200%. After such a gain we are no longer a value driven market but an earnings-growth driven market. Currently we are selling at approximately 17 times estimated 12-month forward earnings while historically the market has sold at about 14 1/2 times earnings. For the market to continue to move higher, which we expect, earnings growth needs to return, which we believe will happen in the second half.

"...EARNINGS IN THE FOURTH QUARTER ARE ANTICIPATED TO RETURN TO A MORE NORMALIZED GROWTH RATE..."

"...WE ARE NO LONGER A VALUE DRIVEN MARKET BUT AN EARNINGS-GROWTH DRIVEN MARKET."

John Conlon, CFA, CFP
Chief Equity Strategist

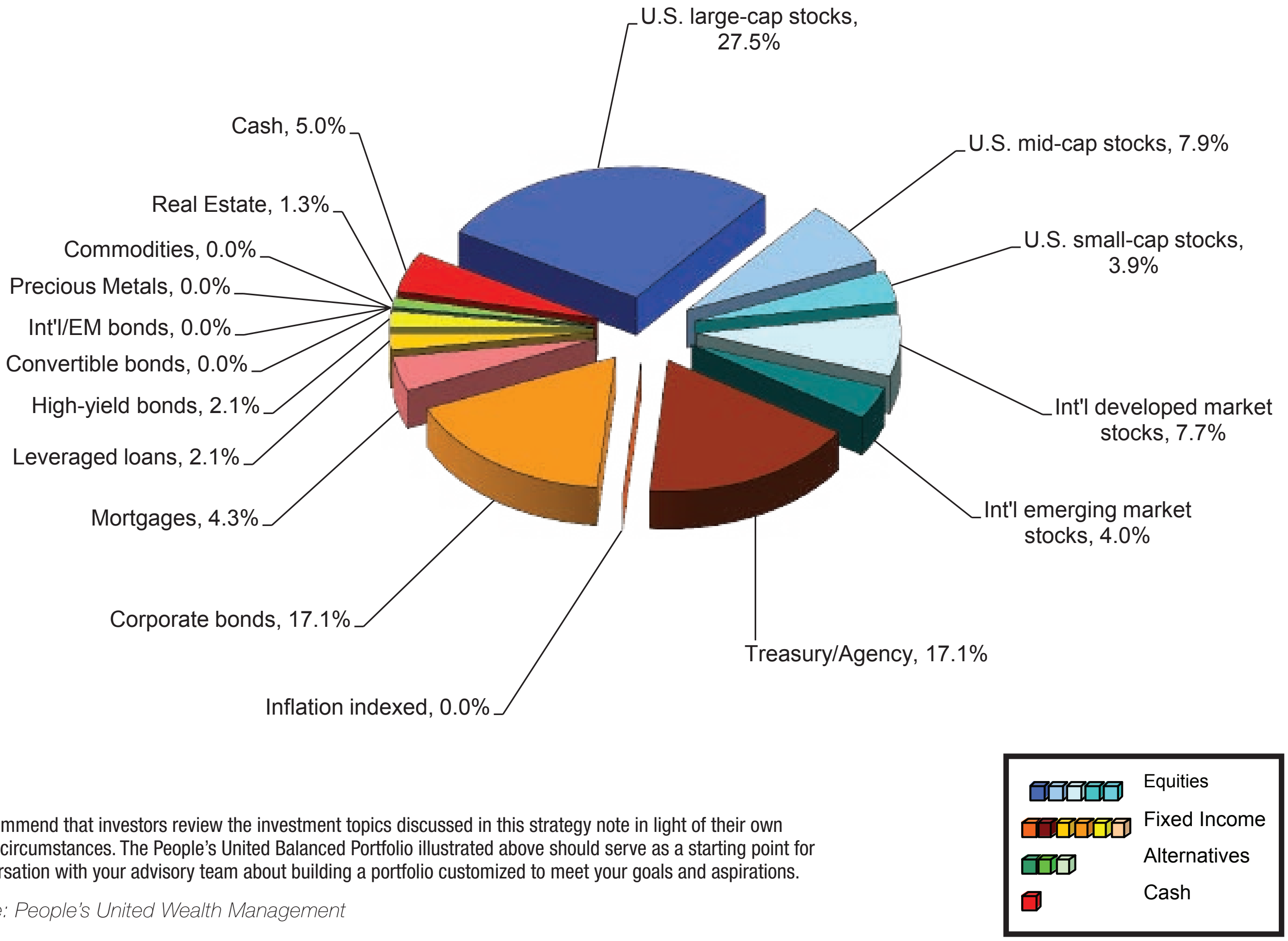
Chart 1: **Value of the Euro**

Source: Bloomberg

Chart 2: **Price of Crude Oil**

Source: Bloomberg

People's United Balanced Portfolio



We recommend that investors review the investment topics discussed in this strategy note in light of their own unique circumstances. The People's United Balanced Portfolio illustrated above should serve as a starting point for a conversation with your advisory team about building a portfolio customized to meet your goals and aspirations.

Source: People's United Wealth Management

Investing When Emotion Trumps Economics

(Continued from pg. 2)

world-wide, especially in Europe.

Higher volatility is likely to persist for the short-term and depress equity prices. Don't be surprised by a market correction of 5% in the U.S.

A stronger dollar and increased uncertainties regarding the EU make it unlikely the Fed will raise interest rates this year.

Central Bank policies in Europe and Japan with negative rates will sustain demand for U.S. Treasuries and keep rates low. Bond returns will be marginally positive. Financial stocks will be under pressure in the persistent low rate environment.

Investors should focus on fundamentals. The Brexit vote does not change our positive outlook for the consumer-led U.S. economy. A moderate over-weight to equities is still warranted, and market dips should be seen as buying opportunities.

International developed equity markets warrant close scrutiny as the Brexit process unfolds. Higher uncertainties may provide buying opportunities or warning signals to reduce exposure. It's too early to tell today.

by John S. Traynor, EVP, CIO

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