Portfolio Shift Commentary: July 18, 2016

The U.S. is seen as a safe haven by many. With the surprising results of the Brexit vote behind us, the most recent global terrorist act in Nice, France and the ongoing concerns of the repercussions of both events influencing the populist votes in Europe and the European Union, the U.S looks pretty attractive.

Our strong dollar and rates at historical lows, but higher than most other sovereign countries, makes the U.S. Treasury market a good place to park money. The Fed has been accommodative in keeping interest rates artificially low, for now. Because of the demand for Treasuries in the U.S., interest rates have come down as money flowing into them has increased prices. This has moved the yield on the 10 year treasury from 2.20% in December 2015 to 1.43% today. The only fly in the Federal Reserve's ointment is inflation. It is starting to show up in several different places. The Consumer Price Index reported today, July 15th reflects hourly wages increasing over the past year 1.5%. Energy prices increased 1.3% over the same time more than offsetting declining electricity costs. Core consumer prices which exclude the volatile food and energy components show an annualized increase above 2% over the past three, six and twelve month period. When you pair this with continued employment gains and housing increases of 3.2% over the past year you have got a rotten pot of stew boiling. The Fed is trying to balance decisions based on global events while these other factors at home would typically lead the Fed to increasing interest rates.

If the Fed decides to bump up short term rates we believe long term rates will continue to come down and the yield curve will flatten. Emerging markets tend to do well when commodity prices increase. Compared to the U.S., valuations in that area are cheap. Our main goal is to provide good ongoing returns, but maintain a diversified low volatility portfolio. We believe that protecting the downside is as important as capturing the upside in this marketplace.

As always, we thank you for your continued support and we welcome your calls to discuss your portfolio or any concerns during this period of market volatility.

Best Regards,

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