Plimoth Investment Advisors®
INVESTMENT MANAGEMENT & TRUST SERVICES SPECIALISTS

FIRST QUARTER – SPRING 2016

INVESTMENT SPOTLIGHT

"It's like deja-vu, all over again." – Yogi Berra

After consecutive years of equity market gains and relatively low volatility, August of 2015 provided a significant spike in volatility and sudden drop in equity market valuations across the globe. Many investors attributed the change in sentiment to weaker than expected growth out of China and their surprise currency devaluation. The Chinese economy has become a significant driver of global growth over the past two decades. As concerns mounted that the Chinese growth engine was slowing more than anticipated, global recession fears abounded.

The sharp decline of oil prices from their 2014 peak also contributed to the downward volatility in three ways. First, declining oil revenue raised concerns over high yield bonds that were issued to finance exploration activity in higher-cost shale oil deposits. Additionally, credit concerns became an issue for countries with significant exposure to oil-based revenues. The slowdown in shale exploration also hurt U.S. economic activity as this major source of capital expenditures slowed dramatically. Finally, Sovereign Wealth Funds that invest excess capital in times of prosperity, suddenly needed to liquidate assets to provide the ongoing revenue needed to fund their respective governments. This created a large seller in the markets, pushing prices quickly lower.

Why are we looking back at 2015? All you have to do is look at the first trading day of 2016. Markets sold off sharply that day after the release of weaker than expected manufacturing activity in China. Subsequently, markets continued a precipitous decline amid a host of market-based policy missteps by the Chinese government. Even after the policy decisions were remedied, markets continued falling through the middle of February. During that period, West Texas Intermediate crude oil prices bottomed at $27.77/barrel, dragging global equities down for the ride. Markets stabilized through the latter half of February, then moved swiftly higher during the month of March, as oil climbed back above $40/barrel.

The correlation between oil prices and stock prices were unusually tight during this timeframe. This uncommon relationship likely reflects the potential for periodic selling of equities should oil prices remain low for an extended period of time. We will address this further in the Stock Market Review & Outlook section below. For the quarter, the S&P 500 managed to eke out a small gain, finishing at 2,059.74, 0.77% above the year-opening level. ■

Keep up with market activity by visiting www.plimothinvestmentadvisors.com. Our weekly market commentary can be found at the "Market Commentary" button in the lower right hand corner.

Economic Review & Outlook

The bulk of economic data released during the quarter continued to suggest sub-standard growth for the U.S. economy. On a positive note, the employment situation continued to improve. The unemployment rate closed the quarter at 5.0%, after hitting 4.9% at the end of February. The underemployment rate, while still elevated, fell to 9.8% after starting the quarter at 9.9%. Job creation continued at a reasonable pace and long-term unemployment also moved lower.

Meaningful wage growth, which has been the key missing ingredient in the employment data, remains elusive. While improving modestly, we do not see the wage growth we would typically associate with a 5.0% unemployment rate. This is likely due to the relatively higher underemployment rate, stubbornly low labor force participation and structural changes in employment trends caused by governmental policy changes.

Housing remains the other relative bright spot in the economy. While the pace of activity slowed during the first quarter, the underlying fundamentals supporting ongoing housing activity remain intact. Stable employment, low interest rates, low housing supply and reasonable levels of affordability all suggest housing activity can continue to drive positive economic activity into 2016.

Spending activity in the economy grew at a tepid pace during the first quarter. Discretionary consumer spending has yet to show the real pop many had expected on the heels of the sharp and sustained decline in energy prices. Auto sales, particularly large trucks and SUVs seem to be one of the only areas where spending has improved significantly. Meanwhile, business spending has followed a similar path of conservatism. Durable Goods Orders increased sharply during the month of January, but then contracted in February. According to a recent survey of U.S. companies, those looking to maintain or cut current levels of spending outnumbered those looking to increase spending by two to one during 2016.

S & P 500 Sector Performance

	Q1-2016	YTD-2016
Consumer Disc.	1.60%	1.60%
Consumer Staples	5.57%	5.57%
Energy	4.02%	4.02%
Financial	-5.06%	-5.06%
Healthcare	-5.50%	-5.50%
Industrial	4.99%	4.99%
Info. Technology	2.60%	2.60%
Materials	3.61%	3.61%
Telecommunications	16.61%	16.61%
Utilities	15.56%	15.56%

Manufacturing activity remains the biggest headwind. The stronger U.S. Dollar has made domestic goods more expensive for overseas purchasers. Additionally, the slowdown in the U.S. energy sector has reduced demand for a wide range of equipment associated with mining activities.

On a global basis, activity continued to show signs of weakening in the first quarter. Growth across Europe was mixed, with Germany continuing to be the most constructive. The European Central Bank announced incremental monetary policy action in an effort to drive growth and avoid deflation. Similar actions are being taken by central banks across the globe including Japan, where negative interest rates were introduced. China remains the big wild-card in the global economic picture. The government officially set a 2016 target growth rate between 6.5% and 7.0%. As the government continues to implement reforms, officials are being challenged on multiple fronts including capital flight, currency volatility and declining reserves. We continue to expect news from China to be a strong driver of global equity values during 2016. ■

Bond Market Review & Outlook

With the Federal Reserve's December Fed Funds rate hike and indication of four more hikes during 2016, 10-Year Treasury yields moved higher into the end of 2015, closing at 2.27%. Rates quickly tumbled with the spike in volatility as investors sought safe-havens for their cash. At the lowest point, 10-year yields reached 1.64% during the quarter.

Amid the period of heightened fear, speculation concerning future Federal Reserve policy shifted to a more dovish outlook. Probabilities of further action shifted from four more hikes during 2016, to possibly one or two more hikes toward the end of the year. One Fed Governor theorized the reduction in market liquidity caused by the financial market turmoil was equivalent to three rate hikes, negating the need for the Federal Reserve to be more proactive. In their decision to maintain current rate policy in March, the Fed referenced their concern over the impact of global market volatility and the increased uncertainty over how those events may impact U.S. growth for the remainder of 2016.

Ten-year Treasury yields closed the quarter at 1.79%, 48 basis points below the year-opening level. On the short end of the yield curve, Two-Year Treasuries fell by 0.40% over the quarter, closing at 0.73%.

From a policy perspective, Global Central Banks, most notably the European Central Bank, continued to increase their efforts to spur growth by reducing borrowing costs. Some countries, including Japan, Denmark, Sweden and Switzerland have adopted negative deposit rates in an effort to push liquidity into the system. The effectiveness of such policies in isolation is questionable. Global economic institutions such as the International Monetary Fund are encouraging countries to increase fiscal stimulus and institute business friendly reforms to create an environment of improved investment and growth.

In the near-term, we expect rates to be constrained from moving higher. At this point, inflation potential remains muted, suggesting the Federal Reserve can continue to exercise patience in their goal of normalizing interest rates at the short end of the yield curve. Meanwhile, long-term rates will likely remain low amid ongoing economic concerns and aggressive central bank policies across the globe. ■

	Q1-2016	YTD-2016
Cash:		
T-Bill Index	0.05%	0.05%
Taxable Fixed Income:		
Barclay's US Agg. Bond	3.03%	3.03%
Barclay's Govt./Credit Int.	2.45%	2.45%
Barclay's Govt./Credit Long	7.30%	7.30%
BofAML High Yield Index	3.25%	3.25%
Tax Exempt Fixed Income:		
Barclay's Muni. 5 Yr.	1.15%	1.15%
Barclay's Muni. 7 Yr.	1.50%	1.50%
Barclay's Muni. TR	1.67%	1.67%

Stock Market Review & Outlook

Aside from the heightened volatility in the first quarter, earnings reports also provided reason for equity investors to reevaluate their outlook. Prior to the end of the year, analysts began to forecast negative earnings growth for 2015. After the release of the fourth quarter results during Q1-2016, the S&P 500 earnings fell for the first time in six years. While the Energy sector provided most of the decline, several sectors contributed to sluggish earnings.

With the decline in earnings and the March recovery in equity prices, the month-end P/E ratio based on trailing 12-month earnings stood at 18.83x. By this measure, stock valuations appear slightly rich compared to historical norms. With S&P 500 earnings projected to grow at 7.25% over the next 12 months, the forward P/E stands at 17.55x. Despite the quarter-ending equity enthusiasm, we consider these levels to be at the high-end of "fair value," leaving the market vulnerable to additional periods of "risk-on / risk-off" trading activity.

	Q1-2016	YTD-2016
DJIA Index	2.20%	2.20%
S&P 500 Index	1.35%	1.35%
Russell 2000 Index	-1.52%	-1.52%
EAFE Index	-2.88%	-2.88%

By February 4th, the S&P 500 was down by 10.52%. During that timeframe, it was low volatility/dividend oriented sectors that outperformed the market. High dividend Utility and Telecom stocks actually performed well during the turmoil. However, as the market quickly recovered, the more cyclical sectors improved the most. Still, by the end of the quarter, the defensive sectors performed the best, including: Telecommunications, Utilities and Consumer Staples. Value stocks in the S&P 500 also outperformed growth stocks by more than 1.50% over the course of the quarter.

We expect earnings for the first and second quarters of this year to suffer from difficult year-over-year comparisons. Should our expectations for growth be realized during the first half of this year, earnings reports for the final two quarters should reverse the slide taken in 2015. ■

Closing Thoughts

The primary drivers of market volatility continue to be China, oil prices and Federal Reserve Policy. With no clear path discernable for either of these variables at this time, we believe the probability for further periods of equity market volatility is quite high. While we do not believe a global or U.S recession is likely, periods of concern may re-emerge causing sentiment shifts back and forth akin to what we have experienced over the past several months.

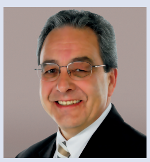
Of course, policy decisions can change and factors can emerge that may and likely will sway investors one way or the other. In fact, changing expectations concerning the Federal Reserve's policy was a large component of the end of quarter rally in equities. OPEC and non-OPEC oil producers are meeting in April to discuss production and pricing strategies. The results of these discussions could meaningfully impact oil prices and equity market activity. Both fiscal and monetary policy decisions in China and Europe could also have a large impact on investors' willingness to take risks.

As always, we will continue to monitor economic and market conditions to ensure timely and appropriate investment action. If we can be of assistance, please do not hesitate to call us at the numbers provided. ■

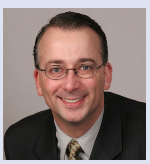
If you are interested in receiving this quarterly newsletter electronically, please contact Thom Miller at tmiller@pliadv.com. We will be happy to take you off the mailing list and add you to the e-mail list.

The Mayflower II being towed through the Cape Cod Canal on its way to its summer residence on the Plymouth waterfront.

Meet the Plimoth Investment Advisors Executive Leadership Team



George Oliveira, CFP®, CTFA
President & CEO
508-675-4310
goliveira@pliadv.com

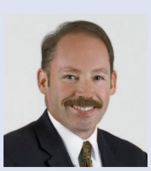


Steven A. Russo, CFA
Executive Vice President & Sr Investment Officer
Department Head - Investment Management
508-591-6202
srusso@pliadv.com

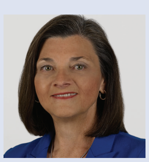
Susan Sartini, CTFA
Senior Vice President & Senior Trust Officer
Department Head - Trust Administration
508-591-6203
ssartini@pliadv.com

Edward J. Misiolek
First Vice President & Operations / Compliance Officer
Department Head - Operations
508-675-4316
emisiolek@pliadv.com

Meet Our Business Development Team



Thom Miller
Vice President / Relationship Officer
Individual & Institutional Accounts
781-320-4865
tmiller@pliadv.com



Sandra L. Sevigney, AIF®, CRSP
First Vice President / Retirement Plan Specialist
508-742-4713
ssevigney@pliadv.com