Financial Markets Update – August 12, 2015

On Monday of this week the Dow Jones Industrial Average gained 241.79 points, or 1.4% marking the Dow's first closing gain of August. All but one of 30 Dow stocks rose. The NASDAQ Composite advanced 58.25 points, or 1.2%, while the S&P 500 gained 26.61 points, or 1.3%, to 2104.18.

Energy firms in the S&P 500 gained 3.1% as a rebound in oil prices lifted beaten-down shares while Berkshire Hathaway's announced acquisition of Precision Castparts Corp led industrial shares higher and reinvigorated "animal spirits" in the marketplace. Disappointing economic data in China provided fuel for gains in stocks across the globe. The weak reports, including a deflation threat from declining factory prices, lifted expectations that the People's Bank of China (PBOC) would increase spending and continue to prop up the market by buying shares. Federal Reserve Vice Chairman Stanley Fischer emphasized that U.S. inflation remains low and Fed officials must see inflation returning to more normal levels before the central bank raises interest rates.

On Tuesday, U.S. investors awoke to news that China's central bank devalued its tightly controlled currency (Yuan), causing its biggest one-day loss in two decades, as the world's second largest economy continues to struggle. Chinese authorities said the change would help drive the currency toward more market-driven movements and spur demand for its exports. The move also signaled the government's growing worry about slow growth.

Financial markets swiftly reversed Monday's gains and have continued moving lower with the S&P 500 Index price return nearly flat for the year at the time of this writing. Investors are speculating that China's currency devaluation is the result of a deeper than anticipated pending economic slowdown. While that may be the case, **we don't doubt that the PBOC will do everything in its means to support and stabilize the Chinese economy.** Although China is the world's second largest economy based upon Gross Domestic Product (GDP), the ratio of Chinese imports-to-global GDP is only 2.8%. It is very difficult to quantify China's financial relationship to the rest of the world. However, given that China still has a state-owned banking system and a relatively closed capital account, its financial relationship may not be very large.

We do not believe that China's growth slowdown and Monday's currency devaluation will derail the global economic recovery or lead to a bear market in risk-based assets. We do believe that it will bring slower inflation worldwide and fuel demand for dollar-denominated assets. The Federal Reserve will remain on tract to raise interest rates either later this year or early next, but will do so at a very gradual pace. Stocks should continue to outperform bonds and cash. On volatile down days in stocks, like the past two, having a well-diversified asset-allocation portfolio provides a degree of downside protection. Please see **TABLE 1** for an illustration of total returns of broad asset classes for today, the trailing one month, and year-to-date. With the exception of gold, which provides a safe-haven, risk-diversifier on days like today, we do not have any direct exposure to the commodities sector. As for Emerging Markets stocks, we own between 1 - 3.5% across client portfolios through the Vanguard

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FTSE Emerging Markets ETF (ticker **VWO**). **VWO** has 22% direct exposure to Chinese stocks making client exposure to China fall in a range of 0.22% - 0.77%.

We will continue to monitor the developments in China, the global economy, and the global financial markets and will inform you of any material developments or changes in portfolio strategy as they may arise.

Andrew C. Zimmerman
Chief Investment Strategist

TABLE 1:

Stocks	***Dividend Yield %***	***Daily Return %***	***1 Month Return %***	***YTD Returns %***
U.S. Large Cap Equities	1.99	-0.78%	(0.21)	1.67
U.S. Mid Cap Equities	1.28	-1.19%	(1.58)	2.59
U.S. Small Cap Equities	1.25	-1.15%	(3.11)	0.86
Emerging Markets Equities	4.22	-2.11%	(7.95)	(7.60)
International Equities	5.20	-1.30%	(1.40)	5.97
Global Equities	2.59	-1.09%	(1.59)	1.64
Real Estate	3.14	-0.36%	1.88	(0.24)
Bonds				
High Yield Debt	5.93	-0.51%	(2.64)	(0.72)
Municipal Bonds	2.53	-0.02%	0.82	0.34
Corporate Bonds	2.44	0.10%	0.31	0.75
U.S. Core Bonds	2.33	0.11%	1.26	0.75
Agency Debt	1.29	0.18%	0.74	1.28
Opportunistic Bonds	3.43	-0.17%	(0.75)	0.11
Mortgage-Backed Securities	4.33	0.27%	1.10	2.12
Preferred Stock	5.65	-0.15%	1.27	3.08
Commodities	0.00	-0.49%	(10.40)	(16.13)
Gold	0.00	1.26%	(3.43)	(5.11)

As of 8/12/2015 1:20 pm EST.
Data Source: Bloomberg securities and indices representative of each asset class/sector.

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Notes: The DT Investment Partners' Market Commentary discusses general developments, financial events in the news and broad investment principles. It is provided for information purposes only. The material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Investments in various asset classes entail different investment risks. For example, small cap equities tend to be more volatile than large or mid-cap equities. International equities and emerging markets have exposure to currency fluctuations, foreign taxes, political instability and the possibility for illiquid markets. Fixed income investments involve interest rate and credit risks among others. Real estate investing includes risks such as declines in value of real estate, changing economic conditions, tax laws or property taxes. Commodities' investing is highly volatile and subject to changing economic conditions and the vagaries of speculators among other risks. Further, diversification and strategic or tactical allocation do not assure profit or protect against loss in declining markets. Index performance returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index. Past performance does not guarantee future results.