



Q3 2016

Quarterly Economic News

M Holdings Securities, Inc. provides a diverse selection of investment and insurance products and services.

July–September 2016

Index	Qtr	1 Yr Return	5 Yr Return	10 Yr Return
Barclays U.S. Aggregate Index	0.46%	5.19%	3.08%	4.79%
MSCI AC World Ex US Net Total Return	6.91%	9.26%	6.04%	2.16%
Russell 2000 Total Return	9.05%	15.47%	15.82%	7.07%
S&P 500 Composite Total Return	3.85%	15.43%	16.37%	7.24%

Economic Overview

The U.S. economy continued to move in a positive direction in Q3 2016, albeit at a slower pace than many desired. The national unemployment rate started the quarter at 4.9% and remained flat through July and August, before climbing slightly to 5.0% in September. According to the BLS, total nonfarm payroll saw increases of 252,000, 167,000, and 156,000 in July, August, and September, respectfully. The labor force participation rate started the quarter at 62.8 percent in July and August, and ended the quarter at a modestly higher 62.9 percent. September's 62.9 percent labor force participation rate reflects a 0.5 percent increase over the previous twelve months.

Commonly watched stock markets and indexes showed at least modest increases over Q3 2016. During Q3: the Dow Jones increased 2.4 percent; the S&P 500 increased 3.28 percent; the NASDAQ Composite decreased 9.82 percent; the Russell 2000 decreased 8.67 percent; and the NYSE Composite increased 2.16 percent.



GDP (LAGGING INDICATOR)

Q2 2016 (Third Estimate)
 Increased by a rate of 1.4%.
 Due to increase in personal consumption expenditures, exports and nonresidential fixed investment.



EXISTING HOME SALES

Through August 2016
 Decreased 0.9% due to reduced inventory.



UNEMPLOYMENT RATE

Through May 2016
 Increased to 5% (seasonally adjusted).



CONSUMER PRICE INDEX

August 2016
 Increased 0.2% (seasonally adjusted).

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The federal funds (effective) rate dropped in Q3 2016; it started the quarter at 0.41 percent and ended at 0.29 percent. With a presidential election looming in Q4, 2016, it is uncertain whether we should expect any significant changes in the rate before year end.

The average 30-year fixed rate mortgage increased ever so slightly in Q3 2016; after beginning the quarter at 3.41 percent, the average 30-year fixed mortgage rose to 3.42 percent by the week of September 29, 2016.

Healthcare Woes Continue

The healthcare and biotech sectors continued to face headwinds throughout the quarter, similar to what it has faced for the majority of the year. The sector has continued to face challenges mostly due to political rhetoric about drug pricing that has heated up during this election year. The sector has been involved in major headline grabbing stories, most recently, from the pharmaceutical company Mylan, who manufactures the Mylan EpiPen, which is used to inject epinephrine to treat severe allergy attacks. Mylan came under extreme scrutiny after it revealed to have increased the price of its medication by 471% after acquiring it in 2007. Mylan attempted to rationalize the massive increase to lawmakers who have been increasingly disturbed by the trend. This comes after Martin Shkreli of Turing Pharmaceuticals was slammed after the company raised the price of a 62 year old drug it acquired by more than 5000% in late 2015. The culmination of events has dampened the returns for the sector after multiple years of outperformance relative to the S&P500. Many investors have remained nervous in the face of pricing scrutiny because of it being an election year. Both candidates have stated that drug pricing is a concern, and have vowed to propose changes that could pressure drug companies' bottom lines. Whether or not such

proposals could actually be approved remains to be seen. Still, even under pressure, most analysts are looking for positive earnings and revenue growth going into the remainder of the year and even 2017.

Brexit Watch

With the June "Brexit" vote, the British Pound has seen a steady decline in valuation when compared to the U.S. Dollar and other major world currencies. In the two trading days after the vote, the pound fell 11%, and recently dipped as far as 16% lower against the dollar. In a market where pennies in variance are considered a significant change, the rapid devaluation of British currency represents a large degree of uncertainty for the UK economies.

Since the initial crash following the Brexit vote the London FTSE 100 has seen a climb of nearly 11%. While importing production is undoubtedly more expensive due to the weak pound in the world marketplace, many of the companies listed on the FTSE 100 have remained largely insulated by virtue of reporting their balance sheets in dollars. With the strengthening dollar, currency translation gains increase as the pound continues to flounder. As British firms renegotiate or renew their currency hedges and rebuild inventory heading into Q4, we may see a more distinct effect on income statements and earnings. Further highlighting this relationship is the performance of the FTSE 250, a fund comprised of primarily domestically operating business. Over the same period, it has plunged 13% in the dollar denominated form. While primarily imported items such as clothing, groceries, and gas have all increased in price, the news is not all negative.

Long term, British goods are cheaper abroad, encouraging exports to other countries, regardless of EU single market access. This, in turn, provides

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additional disposable income for domestic British consumption, offsetting some of the inflationary pressures through an improved current account balance. The other major advantage of creating a fully autonomous currency is the increasing effectiveness of monetary and fiscal tools. However, the UK still retains an uncertain economic outlook and faces the potential for an increase in U.S. interest rates, which would fuel the dollar. And with the unknown status surrounding access to the EU single market, importing may become significantly more expensive. Ultimately it will be years before economists understand the full effects of Britain's decision to leave the EU.

The Barclays US Aggregate Bond Index is a market capitalization-weighted index of investment-grade, fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year. The MSCI All Country World Exclude US Net Total Return is a commonly used measure of common stock total return performance of 22 of 23 Developed Markets countries excluding the U.S. The Russell 2000 Total Return Index is a commonly used measure of small capitalization stocks, The S&P 500 Total Return is a commonly used measure of common stock performance of 500 leading companies in leading industries of the U.S. economy. All referenced indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results. The information and opinions expressed herein are for general and educational purposes only. Nothing contained in this newsletter is intended to constitute legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Information obtained from third party sources are believed to be reliable but not guaranteed. M Holdings Securities, Inc. makes no representation regarding the accuracy or completeness of information provided herein. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice.



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