JJ BURNS

2016: 2nd Quarter Summary

"Instant Karma's gonna get you / Gonna knock you right on the head" John Lennon

Much like the first quarter of 2016, investors stomached another mini-correction in Q2 as a result of the U.K.'s vote on whether to remain in or leave the European Union (EU). A misreading of the poll data led to political and market turmoil at the final tally to leave the EU on June 23. Markets reacted accordingly, and stocks and currencies plunged while government bonds and the U.S. dollar rose over the next two days. Markets then *reversed* direction, and rebounded so that the quarter ended in the black for most asset classes. Unsurprisingly, U.K. risk assets such as stocks and currencies were hit hardest and have the murkiest outlook. As John Lennon wryly noted in *Instant Karma*, Britons shouldn't have been surprised that the 'instant karma' of the markets provided a knock 'right on the head.'

Following is a summary of 2nd quarter and year-to-date performance for various asset classes. A rebound in oil prices and a stabilizing of the U.S. dollar pushed risk assets such as U.S. stocks, high-yield bonds and real estate, as well as oil and gold, into positive territory.

Index	Q1-2016 Ending 3/31/16	Q2-2016 Ending 6/30/16	TOTAL YTD 2016 Ending 6/30/16	2015
Fixed Income				
Barclays US HY 2% Issuer Cap TR	3.35%	5.52%	9.06%	<4.43%>
Barclays Municipal TR	1.67%	2.61%	4.33%	3.30%
Barclays Global Aggregate TR [Hedged]	3.28%	2.51%	5.87%	1.02%
Barclays US Agg Bond TR	3.03%	2.21%	5.31%	0.55%
U.S. Equities				
Russell 1000 TR [Large-cap Stocks]	1.17%	2.54%	3.74%	0.92%
Russell 2000 TR [SMID-cap Stocks]	<1.52%>	3.79%	2.22%	<4.41%>
S&P 500 TR	1.35%	2.46%	3.84%	1.38%
International Equities				
MSCI ACWI Ex USA NR [All Stocks]	<0.38%>	<0.64%>	<1.02%>	<5.66%>
MSCI EAFE NR [Developed Markets]	<3.01%>	<1.46%>	<4.42%>	<0.81%>
MSCI EM NR [Emerging Markets]	5.71%	0.66%	6.41%	<14.92%>
Real Assets				
Morningstar US Real Asset Index TR	2.19%	3.51%	5.77%	<4.22%>
Bloomberg Commodity TR	0.42%	12.78%	13.25%	<24.66%>
S&P GSCI Crude Oil Spot	3.51%	26.06%	30.48%	<30.47%>
S&P United States REIT TR	6.32%	6.56%	13.29%	2.54%
S&P Global Ex US REIT TR	8.82%	1.57%	10.53%	<2.77%>

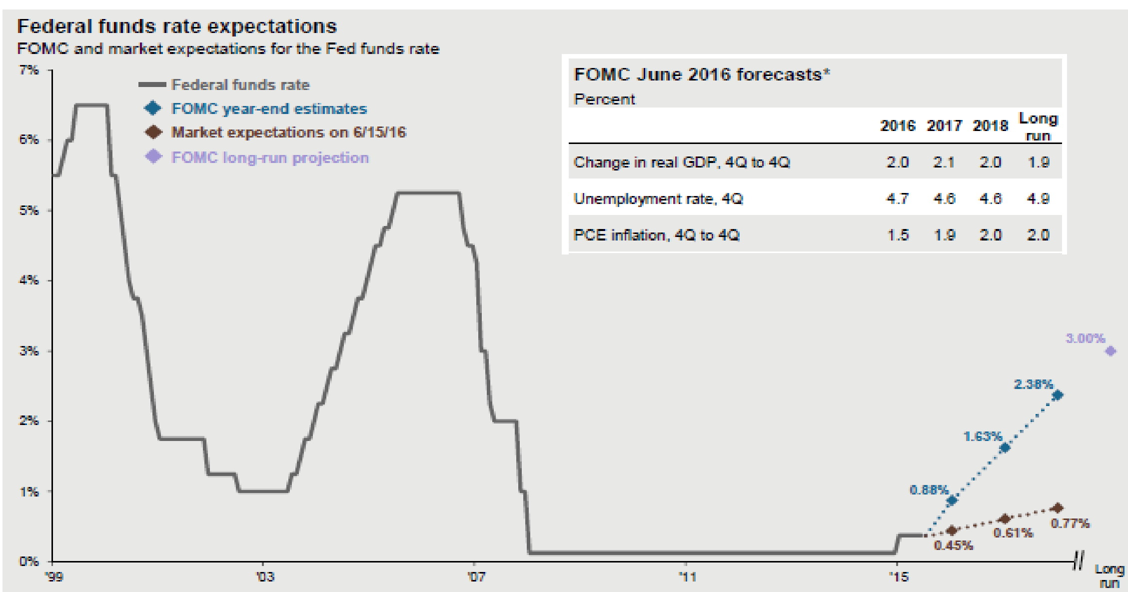
Source: Morningstar, Inc. All data are USD total returns with dividends and interest.

In our recent webcast, we identified four issues that the markets were processing: the 'Brexit' vote; the Fed's interest-rate-hike cycle; the fall U.S. elections; and the ongoing transition of China's economy. Let's look briefly at these issues now that the Brexit vote has passed.

"Say you want a revolution / We better get on right away" *Power to the People*

The Brexit vote: The long-term implications of the "leave" vote are unclear; the short-term results will be harmful to U.K.'s currency, stock market, labor market and economy. Three major political figures have resigned from their party or withdrawn from the selection process for a new prime minister. Negotiations to structure the exit and write new treaties will take years. The economic effects, however, will mostly be confined to the U.K., particularly since the nation is not part of the euro currency. The EU has signaled that they will not offer favorable exit terms to the Britons in order to set an example to other populist movements across Europe (notably in France, Spain and Italy). Most harmful will be the effects on immigration and on the younger members of the work force, who provide the skills and labor necessary to keep the U.K. growing in today's economy.

The Fed's interest-rate hikes: These have understandably been delayed. In what has become a long-running dramedy (drama and comedy), the Fed has clearly signaled a desire to raise short-term rates. Each time the opportunity presents itself, however, a market or political event occurs that delays the increases. The graph below highlights the Fed's intentions (the blue data) and what the market expects (brown data). Clearly, there is a wide gap between intentions and expectations. If expectations are accurate, then investors might expect slower growth, continued job creation, and a tick up in inflation. These translate into more 'lower for longer' rate assumptions.



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.

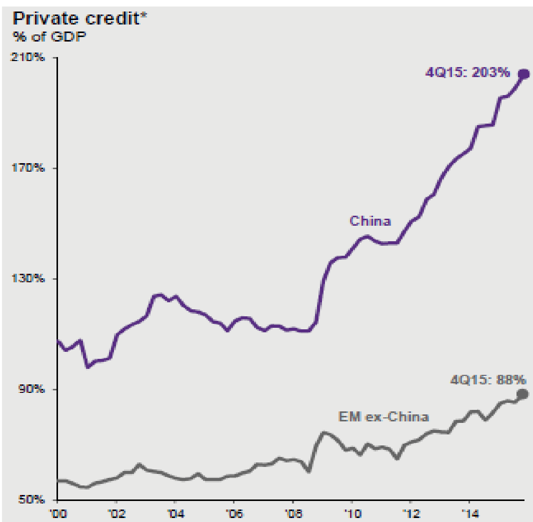
The U.S. elections: In a general election stunningly devoid of policy discussion, investors are left to parse the candidates' comments that reflect almost exclusively on personality traits. We often remind clients that 'the market hates uncertainty,' and the recent populist vote in the U.K. in favor of the Brexit has raised some issues about the underpinnings of the vote and its relevance to the U.S. elections. Here's a brief estimate of some important election issues and how the market might see them:

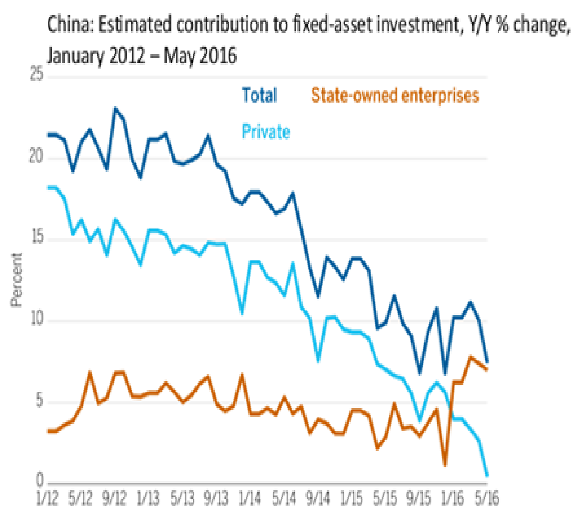
US presidential election - The market issues

	Immigration	Global trade	Taxes	Entitlements	Regulation	Fiscal spending	Predictability
Clinton	Positive	Positive?	Increase	Higher	Increase	Increase	More
Trump	Negative	Negative	Decrease?	Neutral	Decrease?	Increase	Less
Market preference	**Positive**	**Positive**	**Decrease**	**Lower**	**Decrease**	**Decrease?**	**More**

SOURCE: Wellington Management

China's economic transition: Recent events in Europe and the U.S. have taken the spotlight off China. In recent months, the yuan has been further devalued to a level close to its recent high from January 2016; this helps China's trade balance, but hurts other EM countries. Further, China's debt keeps growing (left graph) to a level that is dangerously high, and state-owned enterprises (SOEs, right graph) are crowding out private investment, also not a good indicator. The markets are expecting a 'soft landing' for the Chinese economy, but these data suggest the landing might be harder than hoped for.





SOURCE: J.P. Morgan Asset Management; Hartford Funds

"People asking questions lost in confusion / Well I tell them there's no problem / Only solutions," ***Watching the Wheels***

These issues have introduced a new market solution: TINA. This is an acronym for 'there is no alternative,' a reference to the fact that much of the data we watch – interest rates, global GDP growth, earnings, corporate governance – point investors to stocks, particularly U.S. large-caps. Recently, some energy assets, emerging-markets stocks and investment-grade bonds have become attractive as well. We're still modestly bullish on stocks, have globally diversified fixed-income allocations, and expect growth to be low but positive. We're hopeful that the summer will see more clarity around these issues. In the meantime, we remain invested with a focus on a long-term outlook, and will not allow short–term volatility or market emotions to affect our long-term decisions.

As always, we welcome your comments and questions.

-Your Wealth Management Team at JJ Burns & Company

Disclosure: J.J. Burns & Company, LLC is a registered investment adviser with the U.S. Securities & Exchange Commission and maintains notice filings with the States of New York, Florida, Pennsylvania, New Jersey, Connecticut, and California. J.J. Burns & Company, LLC only transacts business in states where it is properly registered, or excluded or exempted from registration. Follow-up and individualized responses to persons that involves either the effecting or attempting to effect transactions in securities, or the rendering of personalized investment advice for compensation, as the case may be, will not be made absent compliance with state investment adviser and investment adviser representative registration requirements, or an applicable exemption or exclusion.

Unless otherwise stated, performance numbers refer to indexes, which cannot be invested in directly and have no fees or trading expenses associated with them. All index data provided by Morningstar, Inc.

 Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio.

Past performance is no guarantee of future results. This information is provided for educational purposes only and should not be considered investment advice or a solicitation to buy or sell securities.

Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays US Corporate High Yield 2% Issuer Capped Bond Index is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value indexwide on a pro rata basis. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Barclays US Municipal Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed tax exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds. The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Returns hedged to various currencies are published for multi-currency indices.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global ex US REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets, excluding the United States. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The S&P GSCI is designed as a benchmark for investment in the commodity markets and as a measure of commodity market performance over time. It is also designed as a tradable index that is readily accessible to market participants.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.