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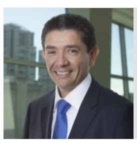
Biweekly insights on the latest global investment news

Equities: Remarkable resiliency



Omar Aguilar, PhD
Chief Investment Officer,
Equities

Divergent economic outlooks

Robust manufacturing activity and respectable overall job growth are helping the U.S. economy, with consumer confidence and spending likely to represent main drivers in the months ahead. Internationally, growth seems set to slow even further amid uncertainty surrounding the fallout from "Brexit." The U.K.'s decision increases the probability of a mild recession in the country, while curtailing near-term activity in continental Europe.

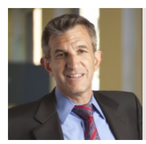
Emerging markets rebound

Led by Latin America and oil-producing countries, emerging markets continue to recover lost ground this year on the heels of disappointing results in 2015. We think this could continue for now as a weaker U.S. dollar and demand for yield will support some emerging market regions, despite slower economic activity in Europe that will likely reduce demand for Chinese exports.

Q2/Q3 results could end earnings recession

U.S. corporate earnings seem set to recover as companies trim their bottom lines and as earnings per share stabilize. This could create opportunities in sectors like Health Care and Technology and in diversified financial services firms that are not heavily reliant upon the shape of the yield curve. Meanwhile, defensive, low-volatility sectors like Consumer Staples, Utilities, and Telecommunication Services could underperform, as select stocks in these sectors seem somewhat overpriced.

Fixed Income: Déjà vu all over again



Brett Wander, CFA
Chief Investment Officer,
Fixed Income

Brexit is *so* yesterday

A possible rate hike later this year is once again the topic du jour. However, we've seen all this before. First, encouraging economic data arrives, stocks rally, and the Fed talks about renewed rate-hike possibilities. Then, something like Brexit happens and the Fed reverts to their wait-and-see mode. All said it seems that everything will need to be nearly perfect for Yellen to pull the rate-hike trigger in 2016, and plenty could go wrong before year-end.

Potential obstacles abound

U.S. job growth looked healthy until the disappointing May data, but then we received great numbers for June. This highlights how much noise any single employment report can contain. With the Fed highly sensitized to even small data changes, disappointing numbers just prior to a Fed meeting could derail any rate-hike plans. Also, although the Fed doesn't explicitly say much about the stock market, if equity volatility spiked like it did in late June, this could cause the Fed to press pause.

Negative rates overseas

With interest rates negative in Japan and parts of Europe, it's tough for the Fed to raise rates. The combination of rising U.S. rates and falling international rates can fuel U.S. dollar to appreciate, making U.S. exports more expensive and dampening domestic economic growth. So the Fed is rightly considering the fallout of raising rates in this environment.

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About the authors

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Omar Aguilar is Chief Investment Officer (Equities) of Charles Schwab Investment Management, Inc. (CSIM), a subsidiary of The Charles Schwab Corporation. Aguilar joined CSIM in 2011 and is responsible for equity and asset allocation mutual funds, ETFs, and separately managed accounts. Aguilar has more than 20 years of broad investment management experience in the equity markets, including managing index, quantitative equity, asset allocation, and multi-manager strategies. Aguilar received a BS in actuarial sciences and a graduate degree in applied statistics from the Mexico Autonomous Institute of Technology. He was a Fulbright scholar at Duke University's Institute of Statistics and Decisions Sciences, where he earned his MS and PhD.

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Brett Wander is Chief Investment Officer (Fixed Income) of CSIM, a subsidiary of The Charles Schwab Corporation. Wander joined CSIM in 2011 and is responsible for all aspects of the firm's fixed income and money market portfolios, leading a team of more than a dozen investment professionals. Over his more than 20 years of investment management experience, Wander has been intimately involved in the design, development, and oversight of a wide range of active, indexed, and alternative fixed income strategies. His expertise spans a wide range of global and domestic markets and sectors. He is a frequent industry speaker, presenting at conferences and in various media forums. He has taught MBA-level investment courses at the University of Southern California. Wander earned an MBA from the University of Chicago and a BS in system science engineering from the University of California, Los Angeles. He is a Chartered Financial Analyst® charter holder.

Charles Schwab Investment Management

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