



## Songbird Capital Research Midyear Market Commentary 2016

### KEY POINTS

- *To describe the first half of 2016 as “dramatic” is an understatement. The global markets went into disarray in the first month of the year with S&P 500 dropped over 11% in 30 days in the wake of Chinese financial regulator’s missteps on the newly implemented circuit breaker rule, then followed by hedge funds’ speculation on possible devaluation of Chinese currency RMB. S&P 500 recovered by over 15% from its February low in the following four months before Brexit, which pulled S&P 500 down by over 5% in two days, then recovered in the next three days. The continued rally in July has pushed S&P 500 to its new high, gaining 7.7% year-to-date as of July 31<sup>st</sup>.*
- *It is not surprising that in the wake of global uncertainty, treasuries and high dividend paying and low risk company stocks benefited from the capital flows, delivering the best returns in the turbulent markets – US Treasury long bond gained 16% and US Telecom and Utility sectors returned over 24% and 21% respectively. Fixed incomes were strong across all segments, particularly US long corporate and treasury bonds, which are reflected by Barclays Global Aggregate rising over 9% for the year. Global equities recovered strongly in the second quarter of 2016 supported by steady corporate earnings in the US, while strong recovery in oil price and stable dollar benefited emerging markets’ recovery. Europe and middle east equity markets fared the worst in the wake of weakening growth in Europe (further concerns from Brexit), the political instability as well as weak and volatile oil market in the past 12-18 months. Emerging market returned over 12% in USD terms, surpassing S&P 500 7.7% return year to date as of July 31<sup>st</sup>, while MSCI Europe is still down 3%. Hedge Funds have another year of disappointment with HFRX Global Hedge Fund Index only returned 0.62% year-to-date and down 0.43% in the past 3 years.*
- *Songbird clients’ portfolios returned over 6% asset weighted in aggregate net of fees as of July 31<sup>st</sup>, 2016, with the conservative portfolios delivering 7.58% return due to the large portion of portfolio benefiting from strong performance in fixed income. Growth portfolios earned 6.65% benefiting from strong US and emerging market equities. Moderate portfolios gained 5.47% as the developed markets ex US had less robust returns than the rest of the world due to slow growth and Brexit concerns. Songbird provides customized active portfolio management for our clients and the clients’ portfolios are quite diversified and selective, the portfolios have performed as expected.*

- *Market outlook: Despite recent market rallies and US equity markets hitting new highs as the past 12 months' political and market events have been digested and understood, various market segments remain below their May 2015 highs, we continue to see the portfolios' potential and opportunities in high yield, which may deliver a good risk adjusted return in the coming months, and continued recovery in emerging market as the Price to Book ratio has reached historical low and stayed low in the past 5 years. As for sectors, we see opportunities in Financials in the short term as the result of sector rotation and valuation, as well as mid to long term in Energy Infrastructure. As some parts of the portfolio have done well, we believe there is potential in various investments in the portfolio. According to Merrill Lynch report, the first half of 2016 witnessed large fund flows from equities to bonds as well as high cash level as volatility in financial assets caused by global events at the beginning of the year rocked investors' confidence. A contrarian signal?! Songbird has long recognized that volatility has been and will be a part of life in the global financial market as we decide the investment objectives for the medium and long term with focus on investment selections and portfolio construction to manage the risk at various levels.*
  
- *After a one-year process, Songbird Capital's name  and its Logo  have become registered trademarks. This is one more step forward to build a new kind of investment advisory firm with strong purpose of delivering value to clients, strong alignment of interest with clients and helping out communities that are in need within our capacity.*
  
- *Songbird charitable initiatives were launched a few months ago. We have set up Songbird Charitable Donor Advised fund to support local non-profits for their social causes. The 2017 committed grants will focus on supporting one of the local soup kitchens, supporting low income family kids for a summer entrepreneurship camp, a successful student-inmate mentoring program in New Jersey and Pennsylvania and a successful NGO to eliminate Riverblindness, a tropical disease in Democratic Republic Congo, one of its last strongholds in Africa. As a continuing commitment to our social causes, Songbird will set aside a portion of firm revenue to support these causes.*