WRIGHT INVESTORS' SERVICE

Monthly Investment Report

March 2016

***SUMMARY*: U.S. stocks were mixed in February, with the Dow managing a small increase and the S&P and NASDAQ falling. But that was good enough to beat foreign equities, which continued to decline. Investors remained defensive, driving up the price of bonds and gold, while favoring dividend stocks. Oil prices were relatively calm in February following several months of steep declines. Both the Federal Reserve and the European Central Bank meet later this month, which could play a large part in determining market direction and investor sentiment.**

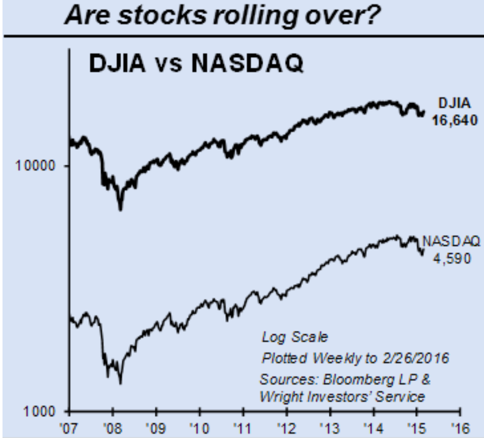
U.S. stocks were mixed in February and in the red for the year to date, but they remain well ahead of their foreign counterparts. The Dow was the only major U.S. index to have positive returns last month, gaining 0.7% including dividends, while the S&P 500 was just narrowly negative, losing 0.1%. NASDAQ lost an even 1%. Small-cap stocks did better, though, as the S&P 600 small caps index gained 1.1% for the month. Year-to-date, all of the major U.S. indexes are still firmly in the red following big losses in January. The Dow, S&P 500 and S&P 600 are all down about 5% this year while NASDAQ is lower by nearly 9%.

Rebounding materials stocks were the best performers among the S&P 500's 10 sectors in February, while bond-like telecommunications and utilities stocks remain the best performers so far this year. Bolstered by some big gains among gold miners, the materials sector gained 7.6% last month, although it remains nearly 4% lower so far this year after being the worst-performing sector in January. Industrials were the next best performers, gaining 4.0%. Financials were the worst performers in February, falling nearly 3%, and are the worst so far this year, down 11.5%. Dividend-rich telecoms and utilities are by far the best performers YTD, up 9.6% and 7.0%, respectively. Indeed, besides consumer staples stocks, which are up 0.8% this year, no other sector is in the green so far this year.

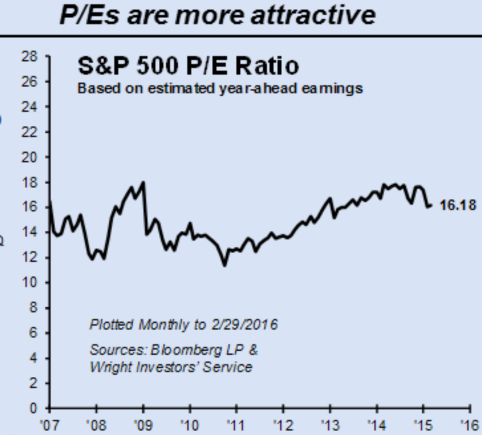
Despite mostly negative returns, U.S. stocks remain well ahead of their foreign counterparts. In Europe, the MSCI Europe ex U.K. index dropped 2.2% in dollar terms in February and is down nearly 9% so far this year, as the euro zone economy continues to tread water. But Asian markets were down even more. Both Japan and China lost more than 2.5% last month and are down nearly 11% and 15%, respectively, year to date.

Bonds and gold proved to be safe havens for investors, posting positive returns for the month and year to date. In the U.S., the Barclays U.S. bond market aggregate, which is heavily weighted with government securities, gained 0.7% last month and is up 2.1% for the year. The yield on the benchmark 10-year Treasury note dropped nearly 20 basis points in February and ended the month at 1.73%, down 54 bps since the beginning of the year. Corporate bonds also had positive returns in February. But foreign bonds outperformed their U.S. counterparts, as the Barclays global aggregate ex U.S. index jumped 3.5%. The yield on Japan's 10-year government bond slid into negative territory, closing the month at -0.06%, which is down 33 bps since the beginning of the year, while 10-year German bunds ended at 0.11%, down more than 50 bps since the start of the year and near the record low levels set last April. Gold, meanwhile, returned nearly 11% in February and is up more than 16% so far this year as investors sought safety in

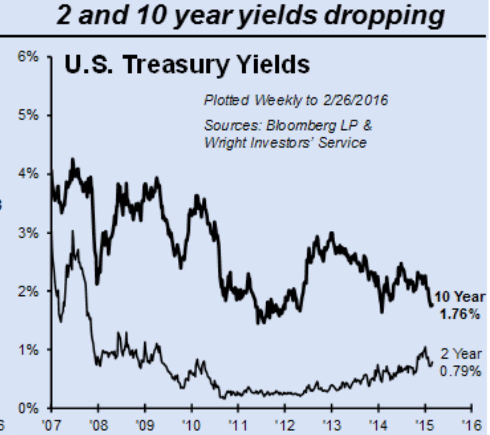
Are stocks rolling over?



P/Es are more attractive



2 and 10 year yields dropping



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the metal. Crude oil prices were relatively stable but are down about 9% YTD.

The latest reports show the U.S. economy opening the year on a surprisingly positive note. Fourth quarter 2015 GDP was revised upward to a 1% annualized increase, up from 0.7% originally reported. Statistics covering January and February have been better than expected. The Chicago Fed's national activity index registered 0.28 in January, its first positive reading since last July. Durable goods orders jumped 4.9% in January after falling 3.5% last year. The increase was the first rise in three months. Construction spending rose 1.5%, well above expectations of a 0.5% gain. Industrial production climbed 0.9%, its biggest monthly increase since May 2010. On the downside, leading economic indicators fell 0.2%.

Consumers also entered the year on a high note. Both personal incomes and spending rose 0.5% in January, both figures above expectations. Retail sales rose for the third straight month, rising 0.2%, largely due to auto sales, which boosted the number by 0.1%. Taking out autos and gasoline, total retail sales were up 0.4% in January, slightly better than expected. Yet, the Conference Board's consumer confidence index for February dropped more than five points to 92.2, well below the consensus estimate. On the inflation front, the consumer price index was unchanged for January but up 1.4% compared to a year earlier, the biggest year-over-year increase since October 2014. More importantly, core inflation, excluding food and energy, was up 0.3%, the biggest increase since August 2011, and 2.2% YOY, the biggest since June 2012.

In the housing sector, which has been a bright spot for the last several years, the news was mostly negative as home prices are starting to fall. Existing-home sales rose 0.4% in January from the prior month to an annual rate of 5.47 million, the best sales pace since last July and the second strongest since February 2007; compared to a year earlier, sales were up 11%, the largest annual jump since July 2013. But the median sales price of a home fell 4.2%. Looking ahead, pending home sales fell 2.5%, the biggest drop in more than two years. Sales of newly-built homes fell more than 9% to an annual pace of 494,000, the weakest in three months. Falling prices also showed up in the new-home sector, as the median price fell nearly 6% to $278,800, a 4.5% drop compared to a year earlier. Housing starts dropped 3.8% and building permits fell 0.2%. Not surprisingly, then, the National Association of Home Builders index fell three points in February to 58, its lowest level since May.

Total Investment Returns — 2/29/2016

	February	Last 12 Mos.
Dow Jones Industrial Average	0.7%	-6.5%
Nasdaq Composite	-1.0%	-7.1%
S&P 500 Composite	-0.1%	-6.2%
S&P MidCap 400	1.4%	-10.0%
S&P SmallCap 600	1.1%	-9.1%
MSCI World ($)	-0.7%	-11.0%
MSCI World ex U.S. ($)	-1.4%	-15.7%
Barclays U.S. Aggregate Bond Market Composite	0.7%	1.5%
90-Day Treasury Bills	0.0%	0.1%
Consumer Price Index NSA* (Jan 2016)	0.2%	1.4%

*NSA: Not Seasonally Adjusted

INVESTMENT OUTLOOK

March will be an active month for central banks, with both the Federal Reserve and the European Central Bank scheduled to hold meetings. Depending on what each does will likely affect the direction of the financial markets. The ECB meets first, on March 10. In late January ECB President Mario Draghi promised additional stimulus measures at the meeting, and last month reiterated that the bank "will not hesitate to act" if need be to boost the economy, responding to comments by other ECB officials that such measures were not a given. The markets seem to believe Draghi, as witnessed by the sharp drop in German bund yields since the beginning of the year. The Fed meets a week later. The minutes of the Fed's January meeting, at which it took no action, left some doubt whether it would announce a rate increase at its March 15-16 meeting, as did comments by Fed Chair Janet Yellen in congressional testimony. But that was before the release of the January and February economic and inflation reports, which might be strong enough to justify a rate increase, which would be the second once since last December. Right now, it's too close to call.

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