Eye on the Market Express: February 2016

MARKET DATA				
	January	3 Mo.	YTD	1 Year
S&P 500	-5.07%	-6.69%	-5.07%	-2.74%
Russell 2000	-8.85%	-10.89%	-8.85%	-11.16%
NASDAQ	-7.86%	-8.70%	-7.86%	-0.46%
MSCI EAFE ($ basis)	-7.27%	-10.17%	-7.27%	-10.73%
MSCI EAFE (local)	-5.87%	-7.49%	-5.87%	-6.12%
UK (FTSE)	-2.54%	-4.36%	-2.54%	-9.86%
Germany (DAX)	-8.80%	-9.70%	-8.80%	-8.38%
Japan (NIKKEI)	-6.14%	-4.38%	-6.14%	1.08%
MSCI Emerging Markets ($ basis)	-6.52%	-12.44%	-6.52%	-22.80%
Barclays Aggregate	1.38%	0.78%	1.38%	-0.16%

All market data as of the end of January 2016. Quoted index returns are based on month end index prices (in local currency except where noted) and do not include dividends.

U.S. ECONOMIC DATA				
	January	Prior Month	Beginning of Year	1 Year Prior
10 year Treasury Yield	1.93%	2.27%	2.27%	1.67%
Gold (London pm fixing per ounce in dollars)	1,112	1,062	1,062	1,260
Oil ($ per barrel)	33.62	37.13	37.13	48.24
VIX Index	20.20	18.21	18.21	20.97

All economic and market data as of the end of January 2016.

In its first meeting since raising its target range for the federal funds rate, the Federal Open Market Committee (FOMC) concluded its January monetary policy meeting by deciding to maintain its target at a range of 0.25%-0.50%. William Dudley, president of the Federal Reserve Bank of New York noted that "in terms of the economic outlook, the situation does not appear to have changed much since the last FOMC meeting." However, concerns about the global economy, especially China, have risen in that time period, and some data points suggest that slower global growth is beginning to affect the U.S. Acknowledging this, in its statement the FOMC said "the Committee is closely monitoring global economic and financial developments and is assessing their implications for the labor market and inflation, and for the balance of risks to the outlook." Despite these concerns, the FOMC's statement indicated the Committee's plan to incrementally raise interest rates remains intact, saying it expects that "with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will continue to strengthen." Although the FOMC is still communicating its intentions to continue raising rates, futures markets show investors factoring in only one to two rate hikes this year instead of the four it was anticipating after the FOMC's December meeting.

Economic data released in January was mixed with housing and labor data generally being positive, but manufacturing and inflation data continued to disappoint. Housing data was almost entirely positive for December. Demand for housing was strong in the month as both existing and new home sales came in well above expectations. Existing home sales rose sharply after slowing in November, coming in at a 5.46 million annualized pace when 5.2 million had been expected, and new home sales came in at a 544,000 annualized pace instead of the anticipated 500,000. However, next month's home sales data may be disappointing since pending home sale for December were lower than forecast, increasing only 0.1% when a 0.9% increase had been expected. Home prices continue to rise, as the S&P Case-Shiller 20-city home price index beat expectations by gaining 0.9% for the month in November, and year-over-year it's up 5.8%. In terms of supply, housing starts came in lower than expected at a 1.149 million annualized pace when a 1.2 million annualized pace had been predicted. Although, building permits came in better than anticipated at a 1.232 million pace when expectations were for a 1.2 million pace. Industrial production and manufacturing data continues to be weak as these areas are sensitive to slowing global growth and the relatively strong dollar. Industrial production, which manufacturing is a component of, dropped 0.4% in December when a 0.2% decline had been anticipated, and the Institute for Supply Management's (ISM) manufacturing index moved further into contractionary territory with a reading of 48.2 in December. Any reading below 50 indicates contraction. The ISM's non-manufacturing index, which measures the significantly larger service sector, is comfortably in expansionary territory at 55.3, but this was still a decline from November's reading of 55.9. Data released this month relating to investments was also discouraging. Preliminary readings indicate that durable goods order for December dropped 5.1% when a 0.7% decline had been expected, and non-defense capital goods orders excluding aircraft and parts fell by 4.3% in the same period. Data for November's factory orders, wholesale and business inventories all showed declines. Data on consumer attitudes was mixed this month with the Conference Board's Consumer Confidence index rising from 96.3 in December to 98.1 in January, and the University of Michigan consumer sentiment index moving down slightly to 92.0 from 92.6. Consumers spent less in December, and retail sales dropped 0.1% for the month. Some of this drop in spending was due to declining gas prices, but even if auto and gas station sales were excluded sales were flat when a 0.4% gain had been expected. Weak consumption data is in contrast to the labor market, which continues to show strength. Weekly jobless claims were at subdued levels throughout the month, with each week's reading below 300,000 claims, and non-farm payroll additions for December were well above expectations at 292,000 when 200,000 had been expected. However, average hourly earnings disappointed and were flat in December. For the year average hourly earnings were up 2.5%. While this is not strong wage growth, it is still above the rate of inflation, which as measured by the Consumer Price Index was up for the year 0.7% or 2.1% if food and energy are excluded.

Domestic equities began the year by moving sharply lower at the outset, although they recouped some losses towards the end of the month. The benchmark S&P 500 declined by -5.1% for the month, while the tech heavy NASDAQ composite and small-cap stocks, as measured by the Russell 2000 index, had even worse losses of 7.9% and 8.9% respectively. Disappointing economic data from China combined with plunging share prices in that country appear to have been the catalyst for the sell-off in U.S. equities. Drilling down into sector results, materials, financials and health care suffered the most losing 10.6%, 8.9%, and 7.6% respectively. There were only three sectors that delivered positive returns in January: telecoms services, utilities, and consumer staples, which rose 6.77%, 4.93%, and 0.65% respectively.

International stocks came under similar pressure this month with the benchmark MSCI EAFE Index declining by 5.9% on a local currency basis, which when translated into dollars resulted in a 7.3% loss as the dollar strengthened against most currencies in January. In Europe, after disappointing markets in December with less monetary stimulus than investors had hoped for, Mario Draghi, president of the European Central Bank (ECB), hinted that more stimulus might be announced at the bank's next meeting in March by saying that would be the occasion "to revisit and possibly reconsider our monetary policy stance." There is pressure for further action from the ECB since inflation continues to be well under its 2% target. The UK had one of the best performing stock markets in January, losing only 2.5%, but its currency, the pound, has come under pressure, losing 3.6% for the month and 6.7% in the last three months. Part of this is due to dovish comments from the Bank of England, but Britain is also attempting to renegotiate its membership with the European Union, which creates uncertainty. Germany posted encouraging data regarding consumer spending, a large driver of its economy, and consumer sentiment, but its stock market still lost 8.8% for the month. In Japan the Nikkei lost 6.1% in January, and at the end of the month the Bank of Japan became the latest central bank to announce it would apply negative interest rates on new deposits, charging -0.1%. Emerging markets also struggled in January with the benchmark MSCI Emerging Markets index losing 6.5%. As touched on earlier, Chinese equities sold off significantly in January with the Shanghai Composite index losing 22.7%. Although China's stock market is minimally correlated to its economy, the country posted disappointing economic numbers in January. Data shows that the manufacturing sector contracted for a tenth straight month and the service sector, which China's leadership has been attempting to shift the economy towards, grew at its slowest pace in seventeen months in December.

Fixed income returns were mostly positive this month with interest rate sensitive sectors doing well and only low grade credit sensitive sectors losing money. The benchmark Barclays Aggregate Bond index rose by 1.38% in January, and the 10-year Treasury yield moved lower to 1.93% as government bond prices rose. Long maturity treasury notes, as measured by the Barclays Long Term U.S. Treasury index were the best performers, rising 5.0%, and high yield bonds, were the worst, with the Barclays U.S. Corporate High Yield index losing 1.6%.

Commodity prices continued to decline in January with the benchmark Reuters/Jefferies CRB index losing 5.3%. Drilling into commodity sectors results were mixed though, with precious metals posting positive returns and energy prices declining. Oil fell from $37.13 a barrel at the beginning of the month to $33.62 at the end. Gold on the other hand rose from $1,062 an ounce to $1,111. Finally, volatility as measured by the VIX index rose to 20.20.

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INDEX	DESCRIPTION
10 Year Treasury	The closing yield on 10-year Treasury notes calculated on a daily basis. Data sourced from the Federal Reserve.
Barclays Capital Aggregate Bond Index	A broad based index used to represent performance of investment grade bonds traded in the United States. The index includes Treasury securities, government related and corporate securities, mortgage-backed securities and asset-backed securities.
Barclays Municipal Bond Index	An unmanaged index considered representative of the tax-exempt bond market.
BofAML Masters II High Yield Index	An unmanaged index tracks the performance of below investment grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.
Conference Board Consumer Confidence	An indicator used to measure consumer confidence in the economy produced by the Conference Board on a monthly basis based upon a survey of 5,000 households.
DAX (Germany)	A total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange.
Dow Jones Industrial Average	An unmanaged index of 30 widely held securities.
Federal Funds Rate	Targeted interest rate at which depository institutions lend to each other overnight. The rate is targeted by the Federal Open Market Committee (FOMC).
FTSE (UK)	A capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange.
FTSE NAREIT All REITs Index	Market capitalization weighted index that includes all tax-qualified REITs listed on the New York Stock Exchange.
GDP	A measure of broad economic output in the United States produced by the US Bureau of Economic Analysis on a quarterly basis with revisions made monthly.
Gold	Value of gold based upon the afternoon fix (15:00 GMT) in London each afternoon.
ISM	A measure of manufacturing activity reported by the Institute of Supply Management each month. A reading over 50 signifies growth in manufacturing during the month.

MSCI EAFE	A widely accepted benchmark of foreign stocks. It comprises 21 MSCI country indices, representing the developed markets outside North America: Europe, Australasia and the Far East.
MSCI Emerging Markets	A widely accepted benchmark of emerging markets stocks. It is a float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets.
NASDAQ	An unmanaged index of all stocks traded on the NASDAQ over-the-counter market.
Nikkei (Japan)	An unmanaged price-weighted index of 225 widely held stocks listed in Japan.
Oil	Closing value of light, sweet crude oil futures in the near month.
Retail Sales	A measure of retail sales compiled monthly by the US Department of Commerce
Russell 2000	An unmanaged index of small cap securities.
S & P 500	An unmanaged index of 500 widely held stocks.
Shanghai Composite	Index of all listed (A and B share class) stocks traded on the Shanghai Stock Exchange.
Thomson-Reuters Jefferies CRB Index	A widely accepted benchmark of commodity prices. The index is designed to provide a representation of long-only broadly diversified investment in commodities.
Unemployment	A measure of unemployment compiled monthly by the US Bureau of Labor Statistics.
VIX Index	Measure of market expectations of near-term volatility based on S&P 500 stock option prices.