Eye on the Market Express: January 2016

MARKET DATA				
	December	3 Mo.	YTD	1 Year
S&P 500	-1.75%	6.45%	-0.73%	-0.73%
Russell 2000	-5.19%	3.20%	-5.71%	-5.71%
NASDAQ	-1.98%	8.38%	5.73%	5.73%
MSCI EAFE ($ basis)	-1.42%	4.37%	-3.30%	-3.30%
MSCI EAFE (local)	-2.80%	5.99%	2.69%	2.69%
UK (FTSE)	-1.79%	2.98%	-4.93%	-4.93%
Germany (DAX)	-5.62%	11.21%	9.56%	9.56%
Japan (NIKKEI)	-4.89%	7.40%	9.07%	9.07%
MSCI Emerging Markets ($ basis)	-2.48%	0.26%	-16.96%	-16.96%
Barclays Aggregate	-0.32%	0.57%	0.55%	0.55%

All market data as of the end of December 2015. 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				
	November	Prior Month	Beginning of Year	1 Year Prior
10 year Treasury Yield	2.27%	2.22%	2.17%	2.17%
Gold (London pm fixing per ounce in dollars)	1,062	1,062	1,199	1,199
Oil ($ per barrel)	37.13	41.59	53.27	53.27
VIX Index	18.21	16.13	12.80	12.80

All economic and market data as of the end of December 2015.

The Federal Open Market Committee (FOMC) concluded its December monetary policy meeting by unanimously deciding to raise the Federal Funds rate from a range of 0-0.25% to a range of 0.25%-0.50%. This is the first time the FOMC has raised rates since 2006 and the decision comes almost exactly seven years to the day after the central bank cut its benchmark rate to zero. The FOMC had made clear future rate increases will be measured and contingent upon positive economic data. In its post-meeting statement the FOMC said that "with gradual adjustments in the stance of monetary policy, economic activity will continue to expand at a moderate pace and labor market indicators will continue to strengthen," and that "the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the long run." In statements at a press conference following the announcement, Federal Reserve chairperson, Janet Yellen, stated the decision "recognizes the considerable progress that has been made toward restoring jobs, raising incomes, and easing the economic hardships that have been endured by millions of ordinary Americans." The increase in rates was largely anticipated by market participants. In trading, immediately following the Fed Funds rate increase, Fed Funds futures implied that analysts anticipate 2-3 0.25% increases in the Federal Funds rate during 2016.

Economic data released in December was mixed, but several of the more negative data points had mitigating factors. Housing data was generally positive with the S&P/Case-Shiller 20-city home price index beating expectations and increasing by 0.8% when a 0.6% increase had been expected; year-over-year the index is up 5.5%. Pending home sales for October rose 0.2% when a 0.1% gain had been anticipated, and both housing and building starts were stronger than expected. However, existing home sales sharply declined by 10.5%, and new home sales missed expectations. The steep decline in home sales is largely attributable to new rules regarding documents required at closing. On average, mortgages in November took three days longer to close than in October, prior to the rule change coming in force. Industrial production continued to struggle and fell by 0.6% in November when a 0.2% decline was expected. However, the largest component of this decline was a fall in utility output due to warmer than average weather throughout much of the country. Manufacturing also continued to be challenged. The Institute for Supply Management's manufacturing index missed expectations, coming in at 48.6 when it had been expected to increase to 50.5. Anything below 50 indicates contraction, and this was the index's worst reading since 2009. The ISM non-manufacturing index, which measures the much larger service sector, also disappointed by coming in at 55.9, although the previous month's reading of 59.1 had been the index's highest reading in a decade. Both

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wholesale and business inventories were lower than expected, declining by 0.1% and remaining flat respectively, and non-defense capital goods orders, which are considered a proxy for business investment, declined by 0.4% when a 0.2% decline had been expected. While business appear cautious based on this data, consumers were up-beat. Retail sales missed expectations, rising 0.2% when a 0.3% gain had been anticipated, but the slower growth was mainly due to lower gas prices. If auto and gas station sales are removed retail sales beat expectations and rose 0.5%. The University of Michigan consumer sentiment index and the Conference Board's consumer confidence index both improved and beat expectations coming in at 92.6 and 96.5 respectively. Consumers could be feeling positive due to generally positive labor and wage data. Non-farm payrolls in November increased 211,000 and revisions to prior months payrolls added a net 35,000 additional jobs. Weekly initial jobless claims throughout December continued to be subdued, with all weeks' figures coming in below 300,000. The unemployment rate remained unchanged at 5.0%, and the labor force participation rate ticked up slightly from 62.4% to 62.5%. On the wage front, average hourly earnings rose in line with expectations 0.2%, and year-over-year they are up 2.3%. Personal income also rose more than expected in November, growing 0.3%. Looking at inflation, the Consumer Price Index (CPI) was flat in November, and on an annual basis it was up 0.5%. However, if food and energy prices are excluded CPI was up 2.0% year-over-year. It's worth noting that the Federal Reserve's preferred measure of inflation, the Personal Consumption Expenditure price index, is only up 1.3% year-over-year when food and energy are excluded, which is under the central bank's 2% target. Finally, third quarter GDP had its last revision, and it slightly beat expectations, coming in at a 2.0% growth rate.

Domestic equities moved lower in December, mainly due to the continuing slide in oil prices and global growth concerns. The benchmark S&P 500 declined by 1.7% for the month and year-to-date its price fell by 0.73%, although if dividends are included the index is up 1.4% for the year. Small cap stocks, as measured by the Russell 2000 index, underperformed larger stocks and lost 5.2% in December, bringing its year-to-date return to -5.7%. The tech heavy NASDAQ composite came in between large cap and small cap stocks, declining 2.0% for the month, and was the strongest performer for 2015, posting a 5.7% gain. Drilling down into sector performance consumer staples, utilities, and health care were the strongest performers for the month, rising 2.9%, 2.2%, and 1.8% respectively. Health care and consumer staples were also the second and third best sectors for 2015, rising 6.9% and 6.6% respectively. The best performing sector for the year was consumer discretionary, which rose 10.1%. The worst performing sector for the month and the year was energy, which lost 9.9% in December and 21.1% over 2015. Growth and value stocks diverged in 2015, with growth stocks, as measured by the S&P 500 Growth index, rising 5.5%, while value stocks, as measured by the S&P 500 Value index, falling by 3.1%. The divergence is partially explained by strong performing technology stocks, such as Netflix which rose 134% in 2015.

International stocks were mixed in December with the benchmark MSCI EAFE Index declining by 1.4% on a local currency basis, which when translated into dollars resulted in a 2.8% loss as the dollar strengthened against the euro. In developed markets, the European Central Bank announced it was extending its existing quantitative easing (QE) program for at least another six months. It also expanded the type of debt the bank can purchase for QE and moved the deposit rate further into negative territory to -0.3%. However, the markets were expecting stronger action and stocks dropped sharply after the announcement. Emerging markets continued to struggle with the benchmark MSCI Emerging Markets index declining 2.5% for the month, ending the year down 17%. In China, the largest emerging market, the government announced that there will be new stimulus measures in light of the country's slowing economic growth. Specifically, they will take steps to make monetary policy more flexible and will expand the government's budget deficit for 2016.

Fixed income prices were mostly lower this month with the benchmark Barclays Aggregate Bond index declining by 0.3% in December, lowering the gain for the year to 0.5%. Neither credit nor interest rate sensitive indexes delivered gains this month. High yield bonds, as measured by the Barclays U.S. Corporate High Yield Index lost 2.5% in December and was the worst performing sector for the year, declining by 4.5%. Long maturity Treasury notes as measured by the Barclays Long Term U.S. Treasury index were essentially flat in December, and declined by 1.2% for the year. Municipals were the only bright spot in December, with the Barclays Municipal index gaining 0.7% in December, and it was the top performing sector for the year, rising 3.6%. The benchmark 10-year Treasury note increased from 2.22% to 2.27%.

Commodity prices continued to decline in December with the benchmark Reuters/Jefferies CRB index losing 3.50% for the month, bringing its year-to-date loss to 23.4%. Almost all commodity sectors declined during 2015, although spot prices rose for the year for cocoa (10.3%), cotton (5.0%), and sugar (5.0%). The rise in cocoa prices was due to constrained supply caused by draught in Ivory Coast and Indonesia, two large cocoa-producing countries. Energy prices were the worst performing sector for the month and the year with WTI crude oil prices declining 10.8% in December to $37.13 and losing 30.3% for the year. Gold was flat for the month, staying at a $1,062, and for the year it was down 11.4%. Finally, volatility, as measured by the VIX rose to 16.21.

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