As an investment advisor, we feel investors should have an information outlet for the financial markets that is thorough, but does not require a prerequisite degree in economics. We hope this makes our commentary informative and educational for all levels of investors. We have also included a glossary at the end of this commentary that defines terms marked with an asterisk (*).

Year in Review

Just like the year before it, 2015 closed with generally subdued results across the board. Large U.S. stocks led the way for the second year in a row, with help from Internet-based heavyweights Amazon and Google, although gains were modest. Bonds barely squeaked out a gain, marking their second-worst year in the last decade, as investors grappled with the prospect of rising interest rates. The commodities market, which includes oil, gold, and grains, posted its 5th straight year of negative returns, continuing its stunning streak in futility.

Asset Class†	2015 Annual Return
U.S. Large Cap Stocks	1.4%
U.S. Bonds	0.6%
U.S. Small Cap Stocks	-4.4%
International Stocks	-5.7%
Commodities	-24.7%

Quarter in Review

The Federal Reserve's December announcement that it raised the Federal Funds Rate* to 0.25% marked a momentous shift in monetary policy, ending years of zero interest rates. Although rising interest rates can be a sign of a rebounding economy, they also raise concerns that it will become more expensive to borrow money. Despite years of hype surrounding the appropriate timing and adverse market reaction to the first change in interest rate policy in nearly seven years, the market's reaction to this event was a collective yawn. Short-term lending rates rose, but long-term lending rates used for most consumer financing such as mortgages barely nudged on the news.

Oil continued its decline, falling another 20% during the quarter to trade at about $30 per barrel, its lowest levels in over a decade. The influx in supply from U.S. shale "fracking" and unrelenting production by the OPEC* cartel—designed to keep the price low until shale producers find it too expensive to continue operating—was joined by a December report from the International Energy Agency (IEA)* forecasting a decline in Oil demand in 2016. The combined effect of more production in the face of lower demand goes against the lessons learned in micro-economics, and cannot continue forever. In the meantime, maybe it's best to just enjoy filling up the tank at $2 a gallon.

Outlook

It seems that lately an outlook based upon the previous quarter becomes stale almost instantaneously as the new quarter begins. This has never been more true than at the current moment. The first week of trading in 2016 was a dud with the worst opening week return in the history of the S&P 500. Much of the blame is being pointed in the direction of China, where nervousness about the country's economic growth was validated by weaker-than-expected manufacturing numbers released last week.

Since concerns over lower economic growth coupled with a price disruption in the oil market are shouldering much of the blame, a quick flesh out of those issues is appropriate.

Global Economic Growth

The key measure in growth is Gross Domestic Product (GDP)*, which is widely used as the litmus test to determine the health of economies. Over the past three years, GDP growth has flattened across the globe, with the most notable declines occurring the in the developing economies such as China. Developing economies such as China are inherently prone to slowdowns in growth as they mature and move away from construction and manufacturing and towards services-based industries. Fits and starts are a natural result of this process and we are currently in a moment where consensus says China overindulged in a construction spree leaving investors holding the bag.

Oil Prices

Since the time of the Industrial Revolution, most drops in oil prices have been seen as a harbinger of good news. Driving becomes cheaper, transporting goods is cheaper, running machinery and factories are cheaper. Today, it seems as though gas under $2 is barely registering as a bright spot to investors. Few oil producers can make a consistent profit with oil prices at current levels. If supply levels do not decrease and demand does not show any increases, we may see some companies fail. However, in the face of lower demand growth, many neglect to mention that consumption of oil has never been higher than it is today.

Certainly in the short term both issues could continue to have serious effects for markets world-wide, but it is more important to take a holistic look at the long-term emerging financial landscape. While swift market declines and volatility evoke knee-jerk bad memories of 2008, today's economy faces different issues and it is too soon to tell whether we are on the cusp of a global slowdown. Despite familiar headlines, the current situation is unique and unprecedented—we'll have to see what unfolds in the coming months.

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Glossary

*Federal Funds Rate – Interest rate used by the largest banks to lend money in the shortest time periods, usually overnight

*OPEC - The Organization of the Petroleum Exporting Countries. A group of major oil producing nations that collude to set production levels. OPEC produces approximately 40% of the world's oil supply.

*IEA – The International Energy Agency. An inter-governmental agency founded in the mid 1970's to promote energy security, economic development and environmental protection among non-OPEC countries.

Gross Domestic Product – The broadest quantitative measure of a nation's economic activity. The equation is Consumption + Government Expenditures + Investment + (Exports – Imports)

† Indices used to represent asset classes:
U.S. Large Cap Stocks – S&P 500
U.S. Small Cap Stocks – Russell 2000
International Stocks – MSCI ACWI ex-U.S.
U.S. Bonds – Barclays Aggregate
Commodities – Bloomberg Commodity

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