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The year in review and the year ahead

Dear Investor,

With the New Year just underway, I'd like to briefly reflect on several notable developments from 2015 and consider the outlook for 2016. Here's a quick recap of some of last year's newsworthy trends and events.

- **Low Oil Prices.** Defying expectations, oil prices plunged even further in 2015. A barrel of WTI crude oil fetched more than $60 in January 2015, but ended the year at around $36. While lower oil and gasoline prices left extra cash in consumers' pockets, they also reduced profits for many energy companies, led to layoffs within the energy sector and created uncertainty about some companies repaying their bonds.

- **The Fed Finally Makes Its Move.** For the first time in more than six years, the Federal Open Market Committee (FOMC) raised short-term interest rates in September. The 25 basis point (0.25%) increase was an important vote of confidence for the U.S. economy, which has been growing slowly but steadily now for several years.

- **China's Economic Growth Stalls.** The days when China's economy routinely grew by 10% or more per year have ended, and the resulting slowdown has depressed worldwide commodity prices. While manufacturing remains a linchpin within China's economy, a gradual shift toward the service sector is underway. In an effort to stimulate its economy, the Chinese government devalued its currency last August. This move caught many international investors off-guard and was seen as a worrisome sign that China may no longer be the reliable economic growth engine it once was.

- **Low Inflation Helps and Hurts.** Inflation has remained surprisingly low over the past several years, helped in part by low energy prices and slower global economic growth. While this is welcome news for retirees or anyone on a fixed income, low inflation cuts both ways. For example, for the third time in the past eight years[1], there will be no cost-of-living increase in Social Security benefits in 2016.

The U.S. economy experienced steady yet unspectacular growth in 2015 and stock market returns mirrored this performance. The S&P 500 Index[2] ended the year with a gain of just 1.38%. The consumer discretionary sector racked up the year's best returns (up 6.29%), while the energy sector suffered through a 22.69% decline.[3]

The performance of overseas markets once again lagged that of the U.S. The MSCI EAFE Index (which tracks developed international markets) fell .82%. The MSCI EM (which tracks emerging markets) declined 16.95%.[3]

Within U.S. fixed income markets, interest rates remained fairly steady throughout the year. We began 2015 with the yield on the 10-year U.S. Treasury at 2.12% and ended 2015 at 2.32%. The higher rate is partly due to the 0.25% Fed rate increase in September. But, by virtually any measure, it's important to remember that interest rates remain at historically low levels. At this time 25 years ago, the yield on 10-year U.S. Treasury bonds was nearly 8%.[4]

Trying to predict how the economy and the markets will perform in the future is virtually impossible. That said, I believe the following questions could have an impact on the financial markets in 2016 and beyond:

- **Will consumer spending provide a boost?** Despite lower gasoline, heating oil, and natural gas prices, consumer spending has not increased to the degree many expected. However, that trend may change in 2016. Early signs point to solid growth in holiday season spending, which could be a harbinger of better times to come. Low unemployment may also lead to higher wage growth, which could provide an additional boost to consumers' disposable incomes.

- **Will higher interest rates curtail growth?** The Fed has signaled it may gradually increase interest rates three or four more times in 2016. The effort to normalize interest rates is a sign of confidence, but raising borrowing costs could also hamper economic growth. Time will tell if the U.S. economy is strong enough to continue growing despite the headwinds of higher interest rates.

- **Will global growth keep pace with the U.S.?** Over the past few years, economic growth in China, Europe, Brazil, and many emerging markets has lagged that of the U.S. If these economies manage to pick up steam in 2016 that may bode well for corporate earnings, and by extension, the stock market. Higher growth overseas could also provide a boost to international stock market performance in 2016.

- **Will domestic or global politics influence the markets?** Depending on who wins the 2016 Presidential election, we could see some additional stock market volatility this year. Political ads and media hype for the next 11 months, ugh! And there is always the possibility that a major terrorist attack or new geopolitical tensions could upset investor confidence. These types of uncertainties are just par for the course and nothing new.

As you start your new year, I encourage you to take stock of your personal finances, your short-term, and your long-term financial goals. If it has been a while since you last evaluated your risk tolerance or examined whether you're on track to meet your future financial goals, now is a good time to take stock. As always, I am here to answer your questions and make any necessary adjustments to your investment portfolio or financial plans.

Best wishes for a happy, healthy, and prosperous new year.

Sincerely,

Mike Ovshak
CFP®

[1] Source: http://money.usnews.com/money/retirement/articles/2015/10/22/what-no-social-security-cola-could-mean-for-you

[2] The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results.

[3] Source for data in this paragraph: Morningstar®. All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results.

[4] Source for data in this paragraph: https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldAll