Market Commentary | Q4 2015

U.S. Economy

Real GDP Growth for Q3, 2015 was finalized at 2.0%, a slowdown from the prior quarter (+3.9%), but near the average of 2.2% since the expansion began in Q2, 2009. The services sector expanded, but the industrial sector contracted due to lower output from the utilities sector and the detrimental impact of a strong U.S. dollar on exports.

Consumer Spending rose to levels not seen since the before the Great Recession. Vehicle sales continued to rise and as did housing prices (Case-Shiller 20-city Index) up 5.3% (November, year-over-year) and new housing starts rising to 88% of the average since 1996.

The Consumer Price Index through December rose 0.7% (year-over-year) versus 0.8% for 2014. After removing food and energy prices, the core inflation rate was 2.1% (year-over-year).

The unemployment rate continued to fall ending the year at 5.0% vs. 5.7% at January 2015. The workforce participation rate remains weak dropping to 62.5% by November.

The Federal Reserve triggered the first hike to the Fed Funds rate (+0.25%) after almost seven years of a near 0% interest rate policy. The FOMC noted a considerable improvement in labor market conditions over the year, and expressed confidence that inflation will rise, over the medium term, to the Fed's 2% objective.

Foreign Economies

The calendar quarter marked the first divergence in monetary policy between the U.S. and most of the largest economies in the rest of the world. While tightening began in the U.S., other central banks in certain European countries, Japan, and China initiated (or continued) monetary easing.

The major global themes impacting economic performance were the declining health of the Chinese economy, geopolitical risks, and low demand for commodities.

The Eurozone's GDP grew 1.6% year-over-year through September. The unemployment rate fell to 10.5% by November, down from 11.5% for the prior year. Inflation was relatively stable at 0.2%, but remains well below the European Central Bank's target rate of 2%.

Japan's economy expanded at a rate of 0.3% year-over-year through November vs. 2.4% for 2014. Industrial output and retail sales grew. Consumer confidence rose to the highest level in two years. The Bank of Japan increased the average maturity of its bond purchases to enhance monetary stimulus.

U.S Equities

The quarter ended in positive territory for all market-cap and style- based indexes with most of the gains occurring in October. Volatility emerged after two years of below average readings.

Stocks in materials, information technology and healthcare were large cap leaders for the quarter with healthcare and technology leading small cap stocks. Energy-related stocks continued their decline due to oil prices dropping to 11-year lows.

The S&P 500 ended the quarter with a valuation of near 15 times estimated 2016 earnings which was slightly below the 25-year average of 15.8.

For the year, gains were found in the indexes for large cap growth stocks, the S&P 500 and REITS. Large cap growth stocks have been boosted by stock buy-backs, mergers and acquisitions, more so than overall improvements to earnings. All other indexes posted a loss for the year.

Foreign Equities

Following what appeared to be an oversold foreign equity market in Q3, developed and emerging markets turned positive, yet finished the year with losses. Volatility increased due to terrorist attacks, conflicting economic data and different degrees of monetary stimulus across countries.

In the developed markets, large cap outperformed small cap and growth outperformed value. All sectors, including energy, posted gains.

Europe's stock market index gained 2% (USD) for the quarter, but was down 2.7% for the year. Rising expectations of continued stimulus by the European Central Bank helped to boost the market.

Japan's stock market gained 9% (USD) for the quarter and 10% for the year.

Emerging Markets' equities rallied in October, followed by losses thereafter. Continued weakness in commodity prices and geopolitical issues were detractors as was the weakness of most currencies against the U.S. dollar.

U.S Fixed Income

Most indexes posted modest losses on the heels of the first Fed rate hike since 2006. The High Yield index's (Credit Suisse) loss was more significant (-2.5%); however, some industry sectors within the index experienced gains. The lowest credit quality portion of the high yield index posted losses near 7.5%.

The AAA-rated portion of the Barclays US Aggregate Bond index gained 0.5%, but all other credit qualities saw losses.

U.S. Treasuries, which are more interest-rate sensitive than corporates, suffered losses ranging from 1.4% (5-year) to 2% (30-year). The yield curve flattened as Fed rate hike expectations increased the yields at the short-end of the curve, while lower inflation expectations capped the increased yields of the long-end. The municipal bond index (Barclays U.S. Municipals) was the best performer for the quarter with a gain of 1.5% on solid demand and a 24% drop in supply for Q4 year-over-year.

Foreign Fixed Income

Emerging markets government bonds were among the top performing global fixed income performers for the quarter with an index gain (JPMorgan EMBIG) of 1.55% (USD). Performance was not consistent across countries, but overall was notable, especially in light of the strong U.S dollar and the impact of China's economic slowdown on commodity-producing countries.

Developed countries' bond performance was mixed with gains generally less than 1.6% (Italy) and losses no more than 1.3% (U.K.)

Market Performance

Index Performance for Period Ending 12/31/2015

US Equity Markets	Index	Quarter	YTD	One	3 Year	5 Year	10 Year
US Small Growth	Russell 2000 TR Growth	4.32%	-1.38%	-1.38%	14.28%	10.67%	7.95%
US Small Value	Russell 2000 TR Value	2.88%	-7.47%	-7.47%	9.06%	7.67%	5.57%
US Small Blend	Russell 2000 TR	3.59%	-4.41%	-4.41%	11.65%	9.19%	6.80%
US Mid Growth	Russell Mid Cap TR Growth	4.12%	-0.20%	-0.20%	14.88%	11.54%	8.16%
US Mid Value	Russell Mid Cap TR Value	3.12%	-4.78%	-4.78%	13.40%	11.25%	7.61%
US Mid Blend	Russell Mid Cap TR	3.62%	-2.44%	-2.44%	14.18%	11.44%	8.00%
US Large Growth	Russell 1000 TR Growth	7.32%	5.67%	5.67%	16.83%	13.53%	8.53%
US Large Value	Russell 1000 TR Value	5.64%	-3.83%	-3.83%	13.08%	11.27%	6.16%
US Large Blend	Russell 1000 TR	6.50%	0.92%	0.92%	15.01%	12.44%	7.40%
S&P 500	S&P 500 TR USD	7.04%	1.38%	1.38%	15.13%	12.57%	7.31%

US Fixed Income Markets	Index	Quarter	YTD	One	3 Year	5 Year	10 Year
US Multisector Bond	Barclays US Agg Bond TR USD	-0.57%	0.55%	0.55%	1.44%	3.25%	4.51%
Intermediate	Barclays US Govt/Credit Interm TR US	-0.69%	1.07%	1.07%	1.10%	2.58%	4.04%
Short Term Bond	Barclays US Govt/Credit 1-3 Yr TR USD	-0.36%	0.65%	0.65%	0.69%	0.98%	2.74%

International Markets	Index	Quarter	YTD	One	3 Year	5 Year	10 Year
Emerging Markets	MSCI EM PR USD	0.26%	-16.96%	-16.96%	-9.04%	-7.16%	1.18%
Foreign Large Blend	MSCI EAFE PR USD	4.37%	-3.30%	-3.30%	2.28%	0.69%	0.21%
World Bond	Barclays Global Aggregate TR USD	-0.92%	-3.15%	-3.15%	-1.74%	0.90%	3.74%

Allocation Portfolios	Index	Quarter	YTD	One	3 Year	5 Year	10 Year
Balanced	DJ Moderate TR USD	2.42%	-1.21%	-1.21%	6.01%	5.85%	5.48%
Target Date 2046-2050	S&P Target 2050 TR USD	4.32%	-0.47%	-0.47%	9.30%	7.93%	
Target Date 2036-2040	S&P Target 2040 TR USD	3.92%	-0.40%	-0.40%	8.73%	7.60%	5.59%
Target Date 2026-2030	S&P Target 2030 TR USD	3.38%	-0.30%	-0.30%	7.86%	7.06%	5.47%
Target Date 2016-2020	S&P Target 2020 TR USD	2.65%	-0.19%	-0.19%	6.57%	6.30%	5.24%
Target Date Income	S&P Target Today TR USD	1.14%	-0.18%	-0.18%	3.62%	4.46%	4.25%

Key Takeaways

►**Economies: U.S. Real GDP** growth for Q3, 2015 was finalized at 2.0%, a slowdown from the prior quarter (+3.9%)

►**The Federal Reserve** triggered the first hike to the Fed Funds rate (+0.25%) after almost seven years of a near 0% interest rate policy. The decision initiated divergence in monetary policy between the U.S. and most of the largest economies in the rest of the world.

►**Equity Markets:** The U.S. ended the quarter in positive territory for all market-cap and style-based indexes with most of the gains occurring in October. Foreign developed and emerging markets turned positive, yet finished the year with losses.

►**Fixed Income**: Most U.S. indexes posted modest losses on the heels of the first Fed rate hike since 2006. Emerging markets government bonds were among the top performing global fixed income performers for the quarter with an index gain (JPMorgan EMBIG) of 1.55% (USD).

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Sources: U.S. Federal Reserve, Morningstar, JPMorgan Guide to the Markets U.S. | 1Q 2016 | As of December 31, 2015