



## December 2015: Market Review

Global equity markets were mostly negative in December as the U.S. Federal Reserve initiated the first interest rate increase since 2006. The Dow Jones Industrial Average fell (1.52%), closing the year up 0.21%. The S&P 500 Index lost (1.58%) for the month, but gained 1.38% for the year. Both indexes hit record highs during 2015. The NASDAQ Composite was down (1.98%), moving its 2015 return to 5.73%.

In U.S. economic news, the Federal Reserve raised the federal funds rate by 25 basis points at its December meeting. The Fed cited improvements in the labor market and confidence that inflation will rise to around 2% as reasons for the increase. The final reading of third quarter real GDP came in at 2.0% annual growth, slightly above expectations. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices rose 0.1% in October, while on a year-over-year basis, prices were 5.2% higher than a year ago. Commodities were down in December, as WTI crude oil ended the month at \$37, down from \$42 at the end of last month and \$53 at the close of 2014. Oil prices fell 30% in the last 12 months and over 60% in the last 18 months. Gold closed December at \$1060 per troy ounce, down from November's closing price of \$1066.

Growth-style equities and value-style equities were negative across all capitalizations in December, with value and lower-capitalization stocks performing worse. Among large cap stocks, the Russell 1000 Growth Index dipped (1.47%) during the month, but was positive for the calendar year, up 5.67%, while the Russell 1000 Value Index lost (2.15%) and was off (3.83%) in 2015. In small cap stocks, the Russell 2000 Growth Index fell (4.77%) and was down (1.38%) for the year, while the Russell 2000 Value Index lost (5.27%) and ended 2015 down (7.47%). The Russell Midcap Index closed the month down (2.68%), pushing its return for the year into the red, off (2.44%).

International equity markets were down in December, even as the European Central Bank cut interest rates and expanded its asset-purchasing program to combat low growth and inflation. The MSCI EAFE Index ended the month down (1.35%) and lost (0.81%) in U.S. dollars in 2015. The MSCI Europe Index dropped (2.57%) during December, giving the index a return of (2.84%) for the year. The MSCI Pacific Index was a bright spot, up 0.92% in December and 2.96% for the year. Brazil and China both continued to struggle, down (6.92%) and (1.30%) for the month and (45.25%) and (7.82%) for the year, respectively. The MSCI Emerging Markets Index dipped (2.23%) and ended the year down (14.92%).

In U.S. fixed income markets, the yield on the 10-Year Treasury closed December at 2.27%, up from 2.22% at the end of November and 2.17% at the end of 2014. The Barclays U.S. Aggregate Bond Index was down (0.32%) in December, but gained 0.55% for the year. The Barclays U.S. Treasury Index lost (0.16%) during the month, but increased 0.84% in 2015. The Barclays Treasury 20+ Year Index rose 0.01%, but was down (1.59%) for the year. The Barclays Corporate High Yield Index closed the month off (2.52%), moving its final return for 2015 to (4.47%).

With the Fed's first rate increase since 2006 now in the books, investors now concern themselves with how high future increases may be, as well as whether tepid economic growth will force the Fed to pause or even backtrack on rate increases. The key for the Fed and investors will be corporate earnings growth and the likelihood that, despite what investors have seen over the past few years, bad will be bad and good will be good.