Diversified Financial Management

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INVESTMENT SUMMARY

4th Quarter 2015

A roller coaster year for the markets has finally come to an end, as most major stock and bond benchmarks registered small gains or losses for the full year. While the fourth quarter saw rebounding stock prices following the summer correction, the final days of December were less cheery, as investors worried about decelerating growth in China, higher interest rates in the U.S., and major geopolitical risks brewing in the Middle East. Complicating matters, the rout in oil prices is proving to be a double-edged sword. While many developed countries import and, therefore, benefit from lower petroleum costs, depressed prices also create serious political and financial risks for those countries that rely on oil exports.

Notwithstanding the year-end market volatility, the underlying fundamentals of the U.S. economy are in decent shape. As we enjoy one of the longest economic recoveries in almost a century, 2015 saw continued gains in housing starts, retail spending, auto sales, and employment. U.S. GDP registered a respectable growth rate of 2% in the third quarter, and was on track to expand at a similar pace in the recently completed quarter. Further supporting this expansion, the recent Congressional budget deal should lead to increased government spending in the months ahead. This is notable, as the government has been a drag on the economy in previous years due to sequestration and other related spending cuts.

While pro-growth fiscal policy (i.e., government spending) can be good for the markets and business, tighter monetary policy in the form of Fed rate hikes tends to have the opposite effect. Given the increased challenges overseas, we expect the Fed to move slowly in their steps to increase interest rates. In addition, U.S. inflation is well under control at this time, compliments of deflationary forces like the strong dollar (up 22% in the last two years) and lackluster wage growth.