# MARKS ON THE MARKET

## *U.S. STOCK MARKET*

Happy New Year. In the last quarter of 2015, several people mentioned to me that they were excited for 2015 to be over, and for 2016 to begin. While they had different reasons for looking forward to the end of 2015, the consensus was that 2016 was to be a welcome reprieve to the last year. Well, it is clear thus far that the markets do not agree. A Chinese stock market crash, an H bomb in North Korea, and war talks between Iran and Saudi Arabia is only part of the recent global news plaguing the first 10 days of the new year. It's no wonder the market is retesting the lows of the most recent (August 25, 2015) correction. The question is will they hold? Or will we have to make a new capitulation low before we will see the indexes recover again?

We believe it is times like this that truly test our resilience to volatility, and we strongly encourage focus away from the short term. Stay Put (and turn off the TV if you need to) and try not to get wrapped up in the flurry of negativity that is spreading like a virus through investors lately.

## *The FED*

The 1/4 point raise in the Fed Funds rate jittered the markets, likely because the Fed consensus was for another 2-4 rate hikes in 2016.

What can we say here? 4 rate hikes in 2016 would still be accommodative policy in a growing economy. Even with 4 hikes, it doesn't appear rates would return to even neutral until possibly late 2017. We continue to be cautious on bonds, especially high quality and longer term bonds, and continue to believe money will flow out of these areas this year - where will it go? Possibly an oversold equity market?

## *China*

As previously mentioned, U.S. Exports to China represent less than 1% of our GDP. China's slowdown is worrisome for the U.S. primarily because it affects other parts of the world that export natural resources to China. China consuming (importing) less commodities and natural resources, could mean a decline in prices of those commodities and natural resources, giving other countries less money from selling to China, ultimately meaning they all buy less from the U.S. This is a major concern of all those who are terribly bearish on the market. We point out, however, that while a slowdown in China has been part of the news for about 5 years, commodity prices have already declined about 60% in 5 years and over 70% from their highs

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(based on the Dow Jones Commodity Index). We continue to hold conviction that the slowdown in China is not a surprise, and that we believe as they work through their problems (currency and manufacturing) and transitions (products to service and export to domestic demand), their growth (albeit slower than some would like) will continue and will benefit the global economy longer term. More on China next week.

### *Oil Prices*

Wow. We can't remember another time when there was impending war in the Middle East and oil prices fell rather than rose. This makes us believe that the lows may be upon us. If you've spoken to us recently, you know that we believe that oil prices cannot stay at significantly less than what it costs major producers to produce it. The over-reaction of this market to the downside is likely an incredible buying opportunity for the smart...albeit brave...investors.

### *Back to the U.S.*

Coming full circle, a U.S. recession does not look likely, but rather we continue to experience a slow-growth recovery. The job market looks good, with 2.6 million jobs added in 2015, and average hourly earnings growth of 2.5% in 2015 (up from growth of 2% in both 2014 and 2013). Consumer health constitutes about 70% of the U.S. Economy, and jobs, low interest rates and cheap oil, should continue to support this. As we watch global woes and emotion run the markets lately, we look for buying opportunities, but with caution. The stock markets look oversold, but sentiment is weak and tired. We do believe though, at the end of the day, that this is how bottoms are made.

All our best,

Amie and Ed

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