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MARKET COMMENTARY & LOOK AHEAD – JANUARY 1, 2016

Oh, So Brief Review of 2015

By most measures, 2015 was a year when investors spent time running in place or sometimes backwards. Market capitalization indexes changed daily, of course, but ended the year mostly where they started. A few factors contributed to the whipsaw nature of the market. Among them were full valuations, weak global growth, energy & materials slowdowns, a strong dollar, and disparate central bank policies.

About this time last year we looked ahead into 2015. What follows is a play-by-play of what we thought might happen and what actually occurred.

<u>Higher U.S. Rates</u> – Janet Yellen helped our prediction come true by raising rates at the FOMC's last meeting of the year.

<u>Fair Equity Returns for U.S. Investors</u> – Not so much. Energy and materials revenues and profits sank. Anemic global growth, coupled with a strong dollar wiped out earnings for companies as they were converted back into our home currency. Most investors were fortunate to earn the dividend yield and no more.

<u>Foreign Investing a Challenge</u> – Yes. As mentioned above, the strong dollar eliminated any local currency growth. After a nice spring rally in foreign markets, they spent the rest of 2015 swooning in dollar terms. Where appropriate, we adapted to the conditions and lightened up on international holdings for clients.

<u>Don't Believe the Hype & Don't Abandon Bonds</u> – Win. Despite the year-end rate increase, investment grade bonds still provided a safe haven for investors throughout 2015. There are structural issues regarding the plumbing in the bond market, especially surrounding liquidity, but at their core bonds still provide a necessary anchor for investors' portfolios.

2016 Outlook

Interest Rates in the U.S. are on an increasing trajectory. The Fed's language continues to indicate a very slow pace – perhaps an increase every other meeting. As we said last year, our economy is much stronger than it was several years ago and can withstand these modest upward moves in rates for 2016 without derailing the recovery.

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The dollar is likely to remain strong, but slow its ascent in 2016. The robust dollar of the past eighteen months has partially been the result of diverging interest rate policies at central banks. With the Fed now officially in an increasing pattern, the old adage of "buy the rumor, sell the news" may play out. Investors piled into dollars as whispers of rate jumps surfaced. Now that the pace of increases is likely to be slow and other economies are stabilizing, the relative attractiveness of the dollar may diminish.

The carnage in the energy sector has been pronounced, nearly epic. For those in the industry, 2016 should remain challenging with output and employment cuts likely. However, as a whole, lower energy costs do nothing but benefit the economy. The fallout of low oil prices should remain narrowly contained.

Interest rates, the dollar, and energy prices factor into what corporate earnings are likely to be in 2016. Given our predictions above, we believe earnings will do well. There is a wild-card, however. A low unemployment rate may allow wage pressure to build. Wage inflation could wind up keeping a lid on robust earnings expansion.

At present levels, U.S. stocks are fairly valued overall. We think that 2016 will allow for a broadening of strength in prices. In 2015, indexes were able to remain stable from the performance of just a few high profile names in the tech and entertainment sectors. We believe that a predictable rate environment, a stabilizing dollar, and energy tailwinds will portend better prices for a larger number of stocks, thereby allowing a broader set of investors to benefit. We look for positive equity returns.

By late 2016 we expect bonds to again claim their rightful place in investors' minds. Rates will likely go up, creating some short term headaches. But those same rate increases will allow investors to see the long term benefits of holding credit securities. Already, we believe that opportunities are showing in select high yield, municipal, and even inflation-indexed bond markets.

Stirling Bridge Wealth Partners, LLC remains committed to providing customized investment solutions and robust financial planning wrapped in an exceptional service package for our high net worth clients throughout the country. We thank each of you for your dedication to us, for your trust, and for the referrals you've sent our way.

Sincerely

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