WEEKLY MARKET COMMENTARY

For the Week of December 21, 2015

THE MARKETS

U.S. stocks slid Friday for the second day as oil prices declined and investors digested potential effects of the interest rate hike announced by the Federal Reserve. Trading was heavy; expiring stock and index option contracts added volatility. For the week, the Dow fell 0.78 percent to close at 17,128.55. The S&P lost 0.31 to finish at 2,005.55, and the NASDAQ dropped 0.21 percent to end the week at 4,923.08.

Returns Through 12/18/15	1 Week	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	-0.78	-1.49	-1.24	11.33	11.09
NASDAQ Composite (PR)	-0.21	3.95	3.68	17.25	13.25
S&P 500 (TR)	-0.31	-0.58	-0.64	13.85	12.36
Barclays US Agg Bond (TR)	-0.35	0.81	1.13	1.68	3.38
MSCI EAFE (TR)	-0.17	-2.55	-2.09	4.45	3.71

Source: Morningstar.com. *Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Three- and five-year returns are annualized. The Dow Jones Industrials, MSCI EAFE, Barclays US Agg Bond and S&P, excluding “1 Week” returns, are based on total return, which is a reflection of return to an investor by reinvesting dividends after the deduction of withholding tax. The NASDAQ is based on price return, which is the capital appreciation of the portfolio, excluding income generated by the assets in the portfolio in the form of interest and dividends. (TR) indicates total return. (PR) indicates price return. MSCI EAFE returns stated in U.S. dollars.

Impact — Since revenue from the sale of oil and gas accounts for 80 percent of Saudi Arabia’s sovereign revenue, the drop in oil prices is expected to create a budget deficit equal to 20 percent of GDP for the Middle Eastern country in 2015. By comparison, the U.S.’s fiscal year 2015 budget deficit was 2.5 percent of GDP (source: International Monetary Fund, BTN Research).

Supply and Demand — The 13 nations that make up OPEC met on Dec. 4, 2015, to consider a 5 percent cut to its oil production to increase the cost of crude oil, a proposal that was ultimately rejected. OPEC has an official daily production level of 30 million barrels but actually produces 31.5 million barrels a day. OPEC’s next meeting is in Vienna on June 2, 2016 (source: OPEC, BTN Research).

Gas Prices — The nationwide average price of a gallon of gasoline was $2.012 on Friday, Dec. 11, 2015. The last time the average price of gasoline was below $2 a gallon was March 25, 2009 (source: AAA, BTN Research).

WEEKLY FOCUS – What the Rate Hike Means to You

With the Federal Reserve raising interest rates for the first time in almost a decade, it's natural to ask how it will affect you. The 0.25 percent increase the Fed announced last Wednesday is so modest it shouldn't impact most individuals significantly. On the sunny side, the hike is a show of confidence that the economy is strengthening, thanks to a falling jobless rate.

But the economic outlook is still guarded, with little inflation, the slump in oil, stagnant consumer prices and a lack of consistent wage growth. Consequently, Fed Chair Janet Yellen has repeatedly indicated future rate increases will be gradual. Raising rates also provides the option to lower them if the Fed wants to stimulate the economy in the future.

Traditionally, savers profit and borrowers lose during periods of rising interest. Mortgage rates may eventually rise, but they are indirectly impacted by short-term rates and more influenced by economic growth and inflation expectations. Except in areas where home prices are already stressed (such as northern California), the broader housing market shouldn't be upset by any minimal increases that could occur from this first bump. Of course, payments on existing adjustable mortgages may grow with this and future boosts.

As additional adjustments are made, consumers may pay more on auto loans and credit card balances. Sustained increases could also mean growing payments for individuals who took out variable student loans or refinanced to variable rate loans.

Since many segments have already responded in anticipation of the Fed lift-off, the stock market isn't expected to react dramatically to the rate hike alone. That being said, stocks with high returns, minimal volatility, elevated margins and stable track records historically outperform lower quality counterparts immediately following a rate rise. Shares in financial companies may increase as banks realize higher margins between the interest they pay depositors and the interest they charge for loans. Higher interest is often bad for longer-dated corporate bonds but high-yield and municipal bonds may benefit from an improving economy. Money market yields can be expected to grow.

While last week's move is expected to produce limited effects, it underscores the importance of a properly diversified portfolio to address your situation. Give us a call if you'd like to re-examine your investments in light of the current environment.

WEALTH HAPPENS.

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE Index) is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 20 European and Pacific Basin countries and includes reinvestment of all dividends. Barclays Capital Aggregate Bond Index is an unmanaged index comprised of U.S. investment-grade, fixed-rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and 10 years. Written by Securities America. SAI#1377163.1