

HFS Wealth Management Monthly Market Monitor

December 31, 2015



MARKET COMMENTARY

The Federal Reserve's decision to increase interest rates further strengthened the dollar, thus applying more pressure to crude oil and emerging markets. Stocks lost their footing during the month, with domestic large caps returning -1.6% and small caps -5.0%. In the S&P 500, defensive sectors generated positive results while cyclical/export sectors (e.g., energy, manufacturing, cyclicals) ended in the red. Bond markets also experienced volatility, as shorter-term interest rates drove Treasury prices lower. Corporate bonds, fueled by liquidity concerns in the high yield bond market, ended the month lower. The lone bright spot were REITs, which continue to benefit from the strength of the domestic housing recovery.

MARKET NEWS

- The Federal Reserve voted to lift interest rates off of 0% for the first time in seven years, emphasizing a plan to gradually increase rates over a three year period; within 24 hours, most major banks increased their prime rate by 1/4 point to 3.5%

- WTI crude oil remained below \$40/bbl for most of the month, ending the year at 2009 price levels, as a mild winter and increasing stockpiles exerted further downward pressure on the commodity

- The European Central Bank further reduced its deposit rate, from -0.2% to -0.3%, thus penalizing banks for holding deposits instead of lending; the ECB continues its efforts to stimulate the European economy and spur growth from its sub-1% levels

INDEX RETURNS & MARKET LEVELS^{1,2}

	Description	Month	3 Months	YTD	1yr
Equities					
S&P 500	<i>U.S. large cap</i>	-1.58%	7.04%	1.38%	1.38%
Russell 2000	<i>U.S. small cap</i>	-5.02%	3.59%	-4.41%	-4.41%
MSCI EAFE	<i>Non-U.S. developed</i>	-1.35%	4.71%	-0.81%	-0.81%
MSCI EM	<i>Emerging markets</i>	-2.23%	0.66%	-14.92%	-14.92%

	Description	Month	3 Months	YTD	1yr
Fixed Income					
Barclays U.S. Aggregate	<i>U.S. core inv. grade</i>	-0.32%	-0.57%	0.55%	0.55%
Barclays Municipal	<i>U.S. municipal</i>	0.70%	1.50%	3.30%	3.30%
BofAML High Yield Master II	<i>U.S. sub inv. grade</i>	-2.58%	-2.17%	-4.64%	-4.64%
JPMorgan EMBI Global TR	<i>Emerging markets</i>	-1.50%	1.55%	1.23%	1.23%

	Description	Month	3 Months	YTD	1yr
Alternatives					
HFRX Global Hedge Fund	<i>Hedge funds</i>	-1.33%	-0.61%	-3.64%	-3.64%
Alerian MLP	<i>MLPs</i>	-3.57%	-2.76%	-32.59%	-32.59%
S&P U.S. REIT	<i>REITs</i>	1.84%	6.98%	2.54%	2.54%
Bloomberg Commodity TR	<i>Commodities</i>	-3.09%	-10.52%	-24.66%	-24.66%

U.S. Economic Measures

U.S. GDP ³		2.0%	(Q3 2015, third est.)
CPI-U ex Food & Energy ⁴	<i>"Core" inflation</i>	2.0%	(11/30/2015)
Unemployment Rate		5.0%	(11/30/2015)

	Levels		
	12/31/2015	12/31/2014	12/31/2014
Rates			
2yr U.S. Treasury	1.06%	0.67%	0.67%
10yr U.S. Treasury	2.27%	2.17%	2.17%
3mo LIBOR	0.61%	0.26%	0.26%
Prime Rate	3.50%	3.25%	3.25%
30yr Mortgage Fixed	4.16%	4.04%	4.04%

Commodities

Gold (\$/oz.)	1,060	1,206	1,206
Copper (\$/MT)	4,702	6,359	6,359
Oil-WTI (\$/barrel)	37.13	53.49	53.49
Nat. Gas (\$/mcf)	2.32	3.00	3.00
Corn (\$/bushel)	3.49	3.80	3.80

Currencies

Euro (\$/€)	1.09	1.21	1.21
Pound (\$/£)	1.47	1.56	1.56
Jap. Yen (¥/\$)	120.30	119.90	119.90

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About HFS:

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Notes: 1) Sources: Bloomberg, J.P. Morgan Asset Management, Morningstar, Hedge Fund Research, Bureau of Labor Statistics, Bureau of Economic Analysis. 2) Data as of the date of this report unless otherwise noted. 3) U.S. GDP measures the percentage change during the referenced quarter as published by BEA. 4) Consumer Price Index for All Urban Consumers: U.S. City Average, All Items Less Food and Energy is based on 12-month percent change as published by BLS.

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