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| **RESOURCE LOG – DECEMBER 2015** | | | | | |
| **Article Title** | **Detail** | | **Publication** | **Date** | **Author** |
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| The Fed’s Lift-Off: Keep Calm and Carry On | Unless the outlook changes substantially between now and then – and we’re barely more than two weeks away – the Federal Reserve will move the largest range for the rate up from the present 0-25 basis points to 25-50 basis points.  In all likelihood, the FOMC is heading for an eventual federal-funds rate near 3.5%. The key word is “eventual”.  First, how will financial markets react to Dec. 16? Markets seem to have built a 25-basis-point rate increase into pricing and so shouldn’t react much when it actually happens. But markets have proven themselves to be fickle and frequently surprising. Remember: Some bond traders were teenagers the last time the Fed raised rates. | | The Wall Street Journal | 12/01/2015 | Alan S. Binder |
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| ISM Manufacturing Contracts | The November ISM manufacturing index printed at 48.6, a decrease of 1.5 from the October reading of 50.1. This print is the lowest value since June of 2009.  New orders which tend to be forward looking experienced the largest decline and dropped from 52.9 to 48.9, their lowest level since August of 2012.  Components that also experienced large drops include production and prices that fell by 3.7 and 3.5 to 49.2 and 35.5. On the positive side, employment reversed last month’s decline and ended higher by 3.7 to 51.3.  Bottom line: The overall ISM manufacturing dropped below 50 for the first time since June of 2009. Readings below 50 are associated with contraction in the manufacturing sector. While some components showed signs of bottoming out last month that was not the case, as the effects of the stronger dollar and weaker global markets continue to adversely impact manufacturing. The jump in the employment component does portend well for the December payroll report that will be released Friday. But if new orders and production are contracting, employment may sooner or later follow. | | Guides for the Journey  Piper Jaffray | 12/01/2015 |  |
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| China Joins World’s Elite Currency Club | China notched an economic milestone Monday, with the International Monetary Fund adding the yuan to its elite basket of reserve currencies, a move designed to spur greater liberalization in the world’s No. 2 economy.  The decision – effective next October – confers international status on China’s currency as the government starts to ease restrictions on its rigidly controlled exchange-rate and financial system. A more freely traded yuan and open markets, down the road, could add volatility to China’s trade picture and raise the risk of capital flight.  The IMF’s decision will eventually put the yuan alongside the dollar, euro, pound and yen in the fund’s reserve-currency basket, with the IMF…..  Anointing the yuan as a reserve currency is in part a simple acknowledgment of China’s economic heft: The country now accounts for more than 15% of the global gross economic output,…. | | The Wall Street Journal | 12/01/2015 | Ian Talley |
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| Firms Shy Away From Spending | Business investment across the U.S. is fizzling out.  A gauge of capital expenditures – orders for nondefense capital goods excluding aircraft – declined 3.8% through the first 10 months of the year compared with the same period in 2014, according to government estimates.  Weak investment restrains economic output, one key reason the economy has struggled to grow faster than 2% in recent years.  Categories of investment stung by falling oil prices and the stronger dollar were hammered especially hard over the past year. Spending on mining and oil-field equipment fell 46% from a year earlier in the third quarter. Outlays on railroad equipment, to move the oil, fell even more sharply. Spending on farm tractors declined 42%. | | The Wall Street Journal | 12/01/2015 | Eric Morath |
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| What’s News | ♦ The Dow fell 78.57 to 17719.92 on losses in retail and health-care shares. | | The Wall Street Journal | 12/01/2015 |  |
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| Negative Bond Yields Disrupt ECB Plans | If the European Central Bank wants to ramp up its stimulus this week, it may have to get creative.  The ECB has been buying €60 billion ($63.47 billion) of bonds a month under its quantitative-easing program, and analysts expect it to expand the initiative at its meeting Thursday.  The ECB doesn’t want to lose money on quantitative easing, so it will only buy bonds that sport higher yields than what the central bank itself pays to the commercial banks that are its depositors.  In the topsy/turvy world of negative interest rates, the ECB’s deposit rate is minus-0.2%. But yields on the safest government bonds have fallen so far that a substantial slice of the securities the ECB will be looking to buy now falls below that threshold. | | The Wall Street Journal | 12/02/2015 | Tommy Stubbington |
| Not Time Yet to Circle the Supertankers | There is now so much crude oil being pumped world-wide amid such tepid demand that producers are fretting over the possibility of a further sharp downward move in prices. | | The Wall Street Journal | 12/02/2015 | Spencer Jakab |
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| Rate Worries Damp REITs  *Stocks trade at 12% discount to net asset values despite rally since September* | For months, investors and executives have been waiting for shares of real-estate investment trusts to catch up to the broader stock market and reflect the value of the properties the companies own.  They may have to wait at least a little while longer.  The MSCI US REIT Index ended November down 1% while the S&P 500 finished the month basically flat. Despite a rally in many REIT stocks since September, the REIT index has fallen 1.3% year to date, while the S&P is up 2.1% through Tuesday.  …investors worry that real-estate values could take a hit if the Federal Reserve raises interest rates of the economy turns out to be weaker than it seems.  The prospect of higher rates has been widely for the underperformance of REIT stocks this year.  Higher interest rates can threaten REIT shares by making the steady dividends the companies often pay shareholders look less attractive relative to the safety of bonds.  REIT shareholders, however have been counting on relatively sound fundamentals in the real-estate business to overcome those obstacles….. | | The Wall Street Journal | 12/02/2015 | Liam Pleven |
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| Factories Show Contraction | U.S. factory activity in November fell to the lowest level since the end of the recession, as weak global demand and a strong dollar continued to buffet the manufacturing sector.  The Institute for Supply Management said Tuesday its gauge of manufacturing activity fell to 48.6 last month from 50.1 in October, slipping into contraction territory for the first time since the end of 2012 and notching the weakest reading since the final month of the recession in June 2009. Readings above 50 indicate expansion.  Economists notes that the major factors weighing on manufacturing, such as a strong dollar and weak Chinese and European growth, were unlikely to reverse course in the near future. Exports shrank for the sixth straight month, as a strong dollar makes U.S. made goods more expensive for overseas buyers.  Another headwind that seems unlikely to abate soon: Low oil and other commodity prices have reduced demand for drilling, mining, and production equipment.  Still, economists said the weak reading likely wouldn’t be a deal breaker for an expected interest-rate increase by the Fed in mid-December.  Hiring provided one of the report’s few bright spots. Factory employment rose to 51.3, after contracting in October.  Manufacturing jobs had been recovering since early 2010, but the pace gains has slowed over the past year as low commodity and energy prices have dented demand for related industrial equipment. | | The Wall Street Journal | 12/02/15 | Anna Louie Sussman |
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| What’s News | ♦ U.S. stocks kicked off December with a broad rally led by health-care shares. The Dow gained 168.43 points to 17888.35. | | The Wall Street Journal | 12/02/2015 |  |
| What’s News | ♦ Brazil’s recession deepened in the third quarter into what economists say is the country’s worst crisis since the Depression. | | The Wall Street Journal | 12/02/2015 |  |
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| What’s News | ♦ Oil prices fell below $40 a barrel, adding pressure on an industry that already is a major weak spot for global growth. | | The Wall Street Journal | 12/3/2015 |  |
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| What’s News | ♦ The ECB stepped up efforts to spur Europe’s economy but the size of the stimulus disappointed markets, slamming stocks and driving up the euro. | | The Wall Street Journal | 12/04/2015 |  |
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| Crowded Trades Collapse  *U.S. stocks, bonds and the dollar all tumble as popular positions are hit by the ECB* | U.S. stocks, government bonds and the dollar all suffered large price losses Thursday, a rare occurrence that underlines markets’ vulnerability to reversals at a time of large bets on central-bank policy and concerns about uneven market liquidity.  The disappointment over the ECB’s plan, released Thursday, was compounded by the fact that many investors had been loading up on U.S. assets in anticipation of fresh European stimulus. | | The Wall Street Journal | 12/04/2015 | Min Zeng |
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| Holding Bonds? Don’t Fret | …When rates in the marketplace rise, the prices of older bonds with lower rates fall.  “An initial rate increase could cause pain in the short term,“ says Joshua Barrickman, head of fixed-income indexing, Americas, at Vanguard Group. “But over the long term, it will act to your benefit.”  For simplicity, the Malvern, PA., fund company assumed the Fed raises short-term interest rates by 0.25 percentage point in January, and then makes a similar-size increase every other quarter through July 2019, for a total climb of two percentage points spread over eight increases.  Under that scenario, a typical intermediate-term bond fund would lose 0.15% next year but generate positive yearly returns thereafter, Vanguard found.  If rates were to climb more quickly, the funds could suffer steeper initial losses. But that is unlikely as the Fed has repeatedly indicated that rate increases will be gradual.  The Fed is well aware of the importance of setting investigators’ expectations, says Jeff Tjornehoj, head of Americas research at Thomson Reuters Lipper. | | The Wall Street Journal | 12/05-06/2015 | Daisy Maxey |
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| Strong Jobs Report Clears Fed for Interest-Rate Liftoff | The U.S. economy delivered another month of sturdy job growth in November, clearing a path for the Federal Reserve to end later this month an extraordinary seven-year run of near-zero interest rates.  U.S. employers added 211,000 jobs in November and the unemployment rate held steady at 5% as more Americans began searching for work….  The bright jobs picture cheered investors, a sign that markets are prepared for liftoff in rates – and that they expect the path of rate increases to be gradual. The Dow Jones Industrial Average leapt 396.96 points, or 2.12%, to 17847.63. | | The Wall Street Journal | 12/05-06/2015 | Kate Davidson |
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| SGS Newsletter | The S&P 500 ended October at 2079 and fell to an intra-month low of 2023 on November 13th and then gradually moved back up to where it began, closing the month at 2086. While we believe we are nearing the end of the current equity bull market, there remains the possibility of one last move higher.  The current U.S. equity bull market is one of the longest and best performing during the past century. It now spans a period of more than 80 months and has more than tripled the value of the S&P 500 index. The length and quality of the expansion was increased by historically low interest rates.  Corporations used the zero interest rate gift to drive strong earnings and revenue growth early in the cycle. (Remember, corporate earnings growth is generally the driver of higher equity prices long term.) However, recently, both corporate earnings and revenue growth have entered into recessionary territory. Corporate earnings have declined the past four quarters and revenues have been lower each of the past three. This generally does not occur outside of a bear market. | | Sterling Global Strategies | 12/07/2015 | Mark Eicker |
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| What’s News | ♦ The strong dollar is stifling U.S. agricultural exports. Forecasters project U.S. wheat shipments will sink to a 44-year low. | | The Wall Street Journal | 12/07/2015 |  |
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| Junk Bonds Flash an Economic Warning | Junk bonds are headed for their first annual loss since the credit crisis, reflecting concerns among investors that a six-year U.S. economic expansion and accompanying stock-market boom are on borrowed time.  U.S. corporate high-yield bonds are down 2% this year, including interest payments, according to Barclays PLC data. Junk bonds have posted only four annual losses on a total-return basis since 1995.  The declines are worrying Wall Street because junk-market declines have a reputation for foreshadowing economic downturns. Junk bonds are lagging behind U.S. stocks following a debt selloff in the past month. The S&P 500 has returned 3.6% for the year, including dividends.  Defaults are rising after several years near historically low levels, as new bond sales stall and companies with below-investment-grade credit ratings struggle to refinance their debts.  The junk-bond default rate rose to 2.6% from 2.1% this year and will likely jump to 4.6% in 2016, breaching the 30-year average of 3.8% for the first time since 2009, said New York University Finance Professor Edward Altman, inventor of the most commonly used default-prediction formula.  He said downturns in the junk-bond market often presage stock-price declines and economic slowdowns. | | The Wall Street Journal | 120/7/2015 | Matt Wirz |
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| A Fed Rate Increase Could Add to Market’s Pressures | Stocks and bonds almost always turn volatile after the Federal Reserve starts raising interest rates, something the Fed is now widely expected to do in less than two weeks.  This time, however, is a special case. The U.S. central bank intends to raise rates gradually, not acting at every policy meeting. It hasn’t moved that slowly since the late 1970s…..  …Jim Dunigan, chief investment officer at PNC Wealth Management, which oversees $132 billion.  Mr. Dunigan, along with many other money managers, believe stocks are likely to turn more volatile next year and finish 2016 with only single-digit percentage gains. But because the Fed is likely to move slowly and keep rates very low, he and many others say they would be surprised to see a bear market, meaning a decline of 20% or more.  So far this year, the S&P 500 is up 1.6%, which would produce a 3.6% total return counting a 2% dividend yield.  …Ed Clissold, Ned Davis’s chief U.S. strategist.  Like many people, Mr. Clissold is concerned by the high price of U.S. stocks compared with corporate earnings. That is because high prices could limit stock gains as borrowing becomes more expensive.  But his firm calculates that the Fed’s target interest rate today is still exceptionally low for the economic environment.  Because cost-cutting is increasingly difficult, a company’s ability to raise earnings will depend more than ever on boosting sales. | | The Wall Street Journal | 12/07/2015 | E.S. Browning |
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| As Oil Keeps Falling, Nobody Is Blinking | Some analysts see the potential for U.S. oil output to rise next year, even after Saudi Arabia and the Organization of the Petroleum Exporting Countries on Friday again declined to reduce their near-record production of crude. With no end in sight for the glut, U.S. oil closed on Friday below $40 a barrel for the second time this month.  For the past year, U.S. oil companies have been kept afloat by hedges – financial contracts that locked in higher prices for their crude – as well as an infusion of capital from Wall Street in the first half of the year that helped them keep pumping even as oil prices continued to fall.  Since most of the money to tap this oil and gas was spent before crude prices cratered, and since pipelines and other infrastructure to bring it to market are already in place, it makes economic sense for the companies to go ahead with the projects despite the glut, they say. | | The Wall Street Journal | 12/07/2015 | Erin Ailworth and Bradley Olson |
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| Will the Jobs Boom End Too Soon? | The hawks on monetary policy are undeniably correct that workers don’t materialize from thin air just because the unemployment rate goes down. A lot of people who went into early retirement or on disability are never coming back….  Yellen has expressed mixed feelings about keeping a high flame under the economy. If the Fed waits too long to raise rates and then has to tighten abruptly to extinguish inflation, it “would risk disrupting financial markets and perhaps even inadvertently push the economy into recession”, she said in a speech in Washington on Dec. 2. That wouldn’t benefit anybody. | | Bloomberg | 12/07/2015 | Peter Coy |
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| The Yuan Still Has Some Growing Up To Do | It took half a decade of incremental policy changes plus a couple of years of lobbying, but China finally overcame doubts and objections on November 30 to secure reserve status for its currency. Officially referred to as the renminbi, or “people’s currency”, the yuan will join the dollar, euro, pound, and yen in the International Monetary Fund’s global currency basket, effective on October 1, 2016. In anointing the yuan as a component of the fund’s special drawing rights (SDR) – a kind of over-draft line of credit for IMF members – the organization was recognizing “the progress that the Chinese authorities have made in the past years in reforming China’s monetary and financial systems,” said IMF Managing Director Christine Lagarde.  …the yuan is still a long way from a “freely convertible” currency – one that can be exchanged for other currencies without restrictions.  The Five-Year Plan the party’s leadership approved in October sets a goal of greater yuan convertibility by 2020.  As part of its transition to a more flexible exchange rate, Beijing needs to gradually dismantle controls on the movement of capital.  Barriers are coming down slowly – and selectively. | | Bloomberg | 12/07/15 | Enda Curran |
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| What’s News | ♦ Energy-industry stocks were battered as oil priced fell to their lowest point in seven years. Fresh selling hit energy firms’ bonds. | | The Wall Street Journal | 12/08/2015 |  |
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| What’s News | ♦ U. S. Stocks dropped on the selloff in energy shares. The Dow shed 117.12 points to close at 17730.51. | | The Wall Street Journal | 12/08/2015 |  |
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| Oil’s Slide Heightens Investor Concerns | Oil prices fell to their lowest point in seven years Monday, hammering energy industry stocks as many investors bet that heavily indebted producers, having weathered months of low commodity prices, are now at greater risk of going out of business.  The selloff hit companies in the markets for oil, petroleum products, natural gas and coal.  Monday’s declines were triggered by forecasts of mild weather that point to tepid U.S. heating demand through the end of the year. They extended a rout set off last week when the Organization of the Petroleum Exporting Countries opted to keep its production high. | | The Wall Street Journal | 12/08/2015 | Nicole Friedman and Timothy Puko |
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| Oil’s $40 Math: More Pain, Gain | About 40% of the market comes from OPEC and is engaged in a war for market share. Their collective output is seen rising in 2016 as sanctions against Iran are lifted.  Compared with July 2014 when prices last peaked, forecasts of earnings before interest, taxes, depreciation and amortization for the world’s five largest, private integrated oil and gas companies have dropped by an eye-popping $232 billion in 2015 and 2016 combined – or about 42%.  The psychological and financial impact of the continuing slump to multiyear lows is curtailing even more private projects that would have produced for years. That will make the recovery stronger for companies can than merge from the wilderness. | | The Wall Street Journal | 12/09/2015 | Spencer Jakab |
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| Stocks in 2016:  Split Decision goes to the Bulls | It’s crystal ball time again.  …USA TODAY’s 20th annual Investment Roundtable held on Dec. 4, the decision, while not unanimous, has to go to the bulls.  The *CliffsNotes* storyline goes something like this: the improving U.S. economy will be able to withstand the start of the Fed’s first interest rate-hiking cycle in 10 years. Sure, there might be bumps along the way, maybe even another 10% downdraft. But, barring some kind of shock, the ingredients for a recession or a bear market drop of 20% are not present at the moment.  David Kostin, chief U.S. equity strategist at Goldman Sachs, is calling for a replay of 2015. “Flat is the new up”, warns Kostin, who for the second straight year is calling for the S&P 500 stock index to post flat returns.  He also argues that stocks are starring out 2016 at a valuation level that limits the upside. The typical stock in the S&P 500, he notes, is trading at more than 17 times expected earnings for the coming four quarters.  “Only 6% of the time during the last 40 years has the median stock traded at a P-E multiple higher than it does today”, says Kostin.  …Russ Koesterich, global chief investment strategist at BlackRock, is advising U.S. investors to allocate more cash to overseas stock markets. | | USA TODAY | 12/11/2015 | Adam Shell |
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| Benefits of Falling Oil Prove Elusive | When oil and gasoline prices began to tumble in mid-2014, experts widely expected it would jolt spending by U.S. consumers and businesses.  Instead, the pace of business investment has slowed significantly, due to drags from weak commodity prices, a strong dollar and concern about the global economy. Consumer spending, meanwhile, has been uneven…  Now, oil and commodity prices are showing still more weakness, with wide ramifications for U.S. industry and the Federal Reserve. | | The Wall Street Journal | 12/11/2015 | Eric Morath |
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| What’s News | ♦ U.S. stocks rose amid buying of beaten-down energy shares. The Dow gained 82.45 points to 17574.75. | | The Wall Street Journal | 12/11/2015 |  |
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| Junk Fund’s Demise Fuels Concern Over Bond Rout | A firm founded by legendary vulture investor Martin Whitman is barring investor withdrawals while it liquidates its high-yield bond fund, an unusual move that highlights the severity of the monthslong junk-bond plunge that has swept Wall Street. | | The Wall Street Journal | 12/11/2015 | Matt Wirz, Gregory Zuckerman and Daisy Maxey |
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| What Went Wrong in Oil?  *Analysts were mistaken – very mistaken-in their forecasts because they forgot the past* | This was supposed to be the year oil prices turned around.  Ten banks surveyed by The Wall Street Journal in March predicted that U.S. crude would average $50 a barrel or better in the fourth quarter. December 2015 futures contracts were selling for $63.82 a year ago.  Instead, oil is on one of its longest price routs in history, and it shows no sign of ending. Oil hasn’t settled above $50 in the U.S. since July.  How did market watchers get this so wrong? Analysts say they forgot the lesson that supply-driven downturns can last a long time. | | The Wall Street Journal | 12/11/15 | Nicole Friedman |
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| Inflation Remains a Wild Card | Inflation has fallen short of the Fed’s 2% target for more than three years. And while the central bank is all but set to raise interest rates next week, the inflation conundrum should give the Fed pause as it weights the pace of future rate hikes in 2016 and perhaps beyond.  Economists polled by The Wall Street Journal estimate producer prices in November were flat from a month ago. They have suffered 10 year-over-year declines in a row.  Falling oil prices, a strengthening dollar and weak overseas demand all have contributed to low inflation.  Consider the so-called 10-year break-even rate, which measures the yield spread between the bench-mark Treasury note and 10-year Treasury inflation-protected securities. It currently reflects investor expectations of 1.56% annualized inflation on average over the next decade.  But until consumer and investor inflation expectations change, rate expectations should similarly subdued. | | The Wall Street Journal | 12/11/2015 | Steven Russolillo |
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| Junk-Bond Rout Deepens  *Traders say selloff was triggered by liquidation of Third Avenue mutual fund* | The retreat punctuated a day of heavy selling across markets, with the Dow Jones Industrial Average tumbling 310 points and U.S.-traded crude dropping 3.1% to $35.62 a barrel. Oil’s 11% decline was its biggest weekly fall since March.  Traders said much of Friday’s decline was triggered by the abrupt closure of a high-profile junk-bond mutual fund. Investors in the Third Avenue Focused Credit Fund learned this week that they won’t get all their cash back for months or more, as Third Avenue Management LLC liquidates the $789 million fund. | | The Wall Street Journal | 12/12-13/2015 | Mike Cherney, Corrie Driebusch & Leslie Josephs |
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| Oil Prices: It’s Market 1, OPEC 0 | Right now, oil prices are telling forecasters that their assumptions were wrong for 2015 and to consider even more pessimistic scenarios for at least the beginning of 2016.  For example, Saudi Arabia, the leading producer in the Organization of the Petroleum Exporting Countries, probably anticipated that U.S. shale producers would be pumping far less by now even without prices quite this low. But ingenuity and overly optimistic financial markets helped output keep rising through this spring. And it has dropped by only about 500,000 barrels a day since then.  For now, the oil bear market looks set to be longer, deeper and, therefore, far more costly than imagined. | | The Wall Street Journal | 12/12-13/2015 | Spencer Jakab |
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| What’s News | ♦ U.S. junk bonds posted their steepest drop, since 2011, stoking fears a bull market in stocks and other risky assets is nearing an end. The Dow fell 309.54 points. | | The Wall Street Journal | 12/12-13/2015 |  |
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| Market-rattling events loom this week | “The market is having a little bit of a freak-out”, says Michael Jones, chief investment officer at Riverfront Investment Group.  **D-Day with the Fed.**  The widely anticipated boost of short-term rates is looking increasingly like a foregone conclusion this week. Traders think there’s an 81% change the Fed will hike rates at the Dec. 16 meeting, based on the CME Group’s FedWatch Tool. Investors know, too, tightening by the Fed chills stocks. The Standard & Poor’s 500 has seen its average gain shrivel to just 2.4% in the six months following the initial Fed rate increases going back to 1971, says Sam Stovall of S&P Capital IQ. That compares to the 9.5% average gain in the six months headed in the hike.  **Market Turbulence.**  Investors are suffering through a brutal sell-off even before the Fed has made a move. The Dow Jones industrial average and S&P 500 were down 3.3% and 3.8% last week, the worst performances since August. Even those losses look tame next to the 11.7% drop in crude oil prices. There’s a glut of capacity for commodities, causing the pressure of prices, Jones says.  **Junk Bond Disruption.**  The market for high-yield bonds, debt sold by companies with the lowest credit ratings, is looking wobbly, too. That’s concerning since junk bonds and stocks tend to move in the same direction, says Diane Vazza of Standard & Poor’s. | | USA TODAY | 12/14/2015 | Matt Krantz |
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| Tectonic Changes Rattle Bonds, Oil | Expectations that the Fed will go ahead and raise rates at its meeting Tuesday and Wednesday weren’t shaken by a rough week that ended with a 1.8% decline for the Dow industrials on Friday.  Still, the send of stress in markets was unmistakable after oil prices fell 11% for the week in the U.S., the deepest drip since March, and the largest U.S. junk-bond exchange-traded funds posted sharp declines amid record trading volume. | | The Wall Street Journal | 12/14/15 | Dan Strumpf, Saumya Vaishampayan & Min Zeng |
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| The Liquidity Trap Spooking Bond Funds | But unleveraged investors, including mutual funds, can also give rise to runs. That is because there is a liquidity mismatch in mutual funds that hold relatively illiquid assets funded by investors entitled to daily redemption.  The problem is potentially more acute when it comes to funds that invest in corporate bonds, which don’t trade frequently, as opposed to stocks.  Mr. Stein noted fund managers were likely to sell more-liquid holdings to meet the earliest redemptions. This leaves remaining investors even more exposed to illiquid bonds.  …growth heightens the potential for a forced sale in the underlying markets if some event were to trigger large volumes of redemptions.” | | The Wall Street Journal | 12/14/15 | John Carney |
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| Junk bond sell-off takes ominous turn | Junk bonds are starting to stink up the place as the sell-off gets worse.  Those losses bring the junk bond market measure down 4.1% over the past week and off a vicious 14.4% from the 52-week high notched on Feb. 26.  The rapid and worsening sell-off is a growing concern for stock investors because junk bonds and stocks tend to generally move in the same direction. Mounting concerns about rising defaults by junk-rated companies – those with the lowest credit ratings – are stoking fears things could get worse before they get better.  A number of factors are putting the junk-bond market in a world of hurt, including:  **Rising default rates.** The default rate on corporate bonds with the lowest credit ratings could rise to 3.3% by September 2016, up dramatically from the 2.5% default rate this past September, says Diane Vazza of Standard & Poor’s. Just 1.6% of speculative-rated bond defaulted in the 12 months ended in September 2014, she says.  **Commodity implosion.**  Much of the pain in the junk bond market has come from commodity, energy and metals issuers, Vazza says.  **Blowout of spreads.**  Investors are getting so nervous about junk bonds, they’re demanding higher returns. Junk bond yields are now 7.1 percentage points higher than government securities…. | | USA TODAY | 12/15/2015 | Matt Krantz |
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| Fed Rate Hike Likely To Tap Economy’s Brakes  *Nation’s bank and money market funds would be among few winners spawned by higher interest rates* | The Federal Reserve’s expected hike in its benchmark short-term interest rate this week – combined with rate increases the next few years – is likely to ripple across the U.S. economy, nudging up rates on everything from mortgages to bank savings rates and corporate bonds.  A 1-percentage point increase in the Fed’s rate over the next year could curtail economic growth the following year by 0.15 percentage points and monthly job gains by 30,000, according to Moody’s Analytics. | | USA TODAY | 12/15/2015 | Paul Davidson |
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| What’s News | ♦ U.S. stocks rose as the oil rout eased. The Dow industrials climbed 103.29 points to 17368.50. | | The Wall Street Journal | 12/15/2015 |  |
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| Investors Abandon Risky Funds  *As junk-bond rout enters a new week, some asset managers see their stocks tumble* | Investors retreated from the U.S. junk-bond market for the third straight trading day and stocks of large asset managers were hit by heavy selling, a sign that the deepest turmoil in financial markets since summer is intensifying.  Some investors reported difficulties selling lower-rated bonds quickly or at listed prices, though others said the market appeared to stabilize somewhat after the record plunge in prices on Friday.  While the market for the highest-quality bonds remains intact, there are signs across Wall Street that investors are losing confidence in lower-quality bond and the firms that most actively deal in them.  Debt from energy companies dropped more than the broader market, and prices on bonds from firms including Chesapeake Energy Corp, declined significantly.  Several senior Wall Street executives said they were watching closely for signs the junk-bond tumult would spread to other funds and other markets.  However, investors have been able to take comfort from low default rates. The default rate on European high-yield bonds during the prior 12 months was 0.3% at the end of September, according to Fitch Ratings,….  …December defaults in the U.S. have pushed the rate to 3.3% in that market, Fitch said Monday. | | The Wall Street Journal | 12/15/2015 |  |
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| Natural Gas Sinks to 14-Year Low  *Record temperatures raise concerns that supply glut will linger, slam energy companies* | The unseasonable warmth has cut consumption and raised concerns that the current gas supply glut will linger for years. Monday’s 4.8% decline brings year-to-date losses to 34%, making natural gas the third-worst-performing commodity so far in 2015.  While the latest leg down in natural-gas prices is a boon for consumers in the form of lower heating bills, it is hammering the stock and bond prices of energy companies already crippled by a broad decline in commodities.  …the nation’s production is at a record even though prices have been sliding for two years. | | The Wall Street Journal | 12/15/2015 | Timothy Puko |
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| Seven Things You Need To Know About China | **Don’t stress over China’s stock markets.** The screaming rise, crash, and rebound of Chinese stock markets in 2015 are evidence enough that the market is not a great indicator of the country’s economic health. (As of late November, Chinese stocks as measured by the Shanghai Composite Index were up 14% for the year.)  It’s fairly normal (in China and elsewhere) for GDP growth and stock markets to be out of whack.  **Keep your eyes on China’s consumers.** Their rise is the real story to watch in 2016. Service and consumer-oriented sectors make up half of China’s GDP, compared with 80% in the U.S. The government is cheerleading for a transition toward consumer spending because the boom-time model of relying on infrastructure building and heavy industry for growth doesn’t have a lot of steam left.  **A China slowdown doesn’t hurt everyone.** These companies and industries could do well. Companies whose business aligns with Chinese government priorities should make money, come rain or 7% shine. One such priority: weaning the country from reliance on foreign semiconductors. China consumes 40% or worldwide chips…  **Don’t be distracted by foreign reserves.** The dollar’s rise may skew the numbers.  **Real Estate shouldn’t make you nervous.** China’s bubble issues are different from ours. Chinese residential sales jumped in 2015, driving prices higher and inventories lower across 35 cities.  **Some U.S. companies will soon get hurt.** But some will cash in on a consumer boom. The direct exposure of U.S. companies overall to China is a relatively small: It accounts for only 2% of S&P 500 revenue, says Goldman Sachs. | | Fortune Magazine | 12/15/2016 | Scott Cendrowski |
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| Investor’s Guide 2016 | After more than six years of rising stock prices and sky-high bond valuations, investors braced themselves for a tumble in 2015. Instead, they got a seesaw year in which major U.S. indexes stayed relatively flat – even as China’s slowdown, plummeting oil prices, and a looming interest-rate hike gave them night sweats. There was plenty of anxiety and volatility, and not much clarity.  Kate Warne, investment strategist at brokerage Edwards Jones, which oversees $888 billion;…  Part of it is the drop in oil. Part of it is the stronger dollar. If you take those two things out, we don’t have strong earnings growth, but we actually do have some earnings growth, and that’s actually really important.  And frankly, if we see that, there’s worrying signs in the high-yield market. Energy and metals and mining represent about 20% of the high-yield index. I could see tightening in credit conditions as a result of a credit event around commodities, and my guess is 2016 is going to be pretty disappointing as a result. | | Fortune Magazine | 12/15/2016 |  |
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| What’s News | ♦ U.S. stock indexes rose amid a reprieve in the junk-bond rout. The Dow gained 156.41 points to 17524.91. | | The Wall Street Journal | 12/16/2015 |  |
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| Emerging Markets Divided on Fed | It the central bank raises the federal-funds rate on Wednesday as expected for the first time since 2006, many central banks in emerging markets won’t be going along for the ride. Instead policy makers from Mexico to Turkey will embark on a journey that many analysts and traders expect to last a year or more, of constantly choosing between two unhappy extremes: keeping rates low and accepting the possibility that would trigger another round of damaging capital outflows, or choosing to keep pace with the Fed and possibly sending struggling domestic economies into recession.  …Emerging-market asset prices have been hit hard over the year by the plunge in the energy sector and the slowdown in trade driven in part by China’s economic retrenchment. | |  |  |  |
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| Natural-Gas Prices At Lowest Since ‘99 | Natural-gas priced dropped in the lowest level since 1999 as concerns about weak demand continued to weigh on the market.  The natural-gas market is oversupplied due to weak demand and continued robust production.  Analysts say that even if a bout of cold weather arrives, there is ample gas in storage to meet any spike in consumption. | | The Wall Street Journal | 12/16/2015 | Nicole Friedman |
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| Fed Nudges Rates Higher | The Federal Reserve said it would end a seven-year experiment with near-zero interest rates by raising its benchmark rate and emphasizing a plan to lift it gradually over the next three years.  The move marks a test of the economy’s capacity to stand on its own with less central-bank support to spur continued spending and investment by households and businesses.  “The Fed’s decision today reflects our confidence in the U.S. economy,” Fed Chairwoman Janet Yellen said Wednesday…..  Investors took the upbeat message to heart. The Dow Jones Industrial Average rose 224.18 points, or 1.28% to 17749.09. | | The Wall Street Journal | 12/17/2015 | Jon Hilsenrath & Ben Leubsdorf |
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| Emerging Markets Face Currency Street  *Rising rate promise to pinch economies already struggling with global slowdown* | A Fed-induced strengthening of the U.S. dollar could spell deeper pain for countries such as Turkey, Russia and Brazil, where firms have borrowed heavily in the U.S. currency. Weaker local currencies make paying dollar debt much tougher. | | The Wall Street Journal | 12/17/2015 | Ian Talley |
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| For Consumers, an Uneven Impact | The prime lending rate, which usually hovers above the fed-funds rate, will go to 3.5% from 3.25%.  In a rising-rate environment, deposit-rate increases typically lag behind increases in loan rates by month, which is why banks can make more money when rates go up. By contrast, the yields on money-market mutual funds rise more quickly, and some funds are expected to raise the rate on those savings products within days.  When the Fed lowered interest rates near zero in the wake of the financial crisis, it ushered in a difficult period for bank profits, even as the broader economy slowly recovered. Banks’ lending profitability steadily declined through the recovery. | | The Wall Street Journal | 12/17/2015 | Rachel Louise Ensign |
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| Stronger Dollar Is Businesses’ Top Worry | American businesses fretted that the first interest-rate increase in nearly 10 years came at a time when a strong U.S. dollar already is sapping demand for exports and low commodity prices are weighing on growth in the industrial economy. | | The Wall Street Journal | 12/17/2015 | A Wall Street Journal Roundup |
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| Commodities Drop Anew | Prices for most raw materials fell, a day after the decision by the Federal Reserve to raise interest rates compounded the pressure on an asset class already suffering from weak demand and persistent supply gluts.  Investors fear that the Fed’s tighter monetary policy will further sap demand from emerging markets and many raw materials, as it boosts the dollar and makes it more difficult for countries with debt denominated in the U.S. currency to meet obligations.  Gold settled at a six-year low, down 2.5%, to $1,050.80 a troy ounce, weighed down by the prospect of higher interest rates and scant inflation. | | The Wall Street Journal | 12/18/2015 | Ira Iosebashvili |
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| What’s News | ♦ U.S. stocks tumbled on another decline in energy shares. The Dow slid 253.25 points to 17495.84. | | The Wall Street Journal | 12/18/2015 |  |
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| Fed Hikes But Some Rates Veer Lower | On the day the Federal Reserve implemented its plan to raise interest rates, driving up overnight borrowing costs, broader market forces conspired instead to drive other U.S. interest rates down.  The Fed increased its overnight target rate for lending between banks early Thursday, hitting 0.35%. But yields on Treasurys-from one-month bills to 10-year notes-fell as demand from investors drove prices higher.  It is a conundrum that Fed officials have grappled with for months…  While the Fed can orchestrate a rise in its overnight target rate, buying and selling by investors worldwide largely dictate the movement of yields in the $12.8 trillion Treasury market, a forum that effectively sets the borrowing rates for everything from mortgages to corporate loans.  Strong global demand for U.S. Treasurys, which tends to push down yields, is potentially creating conflict with the central bank’s plans to raise U.S. interest rates.  Treasurys are being sought out by numerous sources now, thanks to soft global growth, regulatory changes that increase interest from banks and money-market funds, among other institutions, and investors and banks boosting cash holdings at a time when markets are broadly perceived to be fully valued and potentially vulnerable to a shock.  Meanwhile the 10-year U.S. Treasury yield fell to 2.24%....  Thursday’s decline in the 10-year Treasury yield underscores the manifold challenges facing the Fed.  The Dow industrials on Thursday declined 253.25 points, or 1.4%, to 17495.84, more than reversing Wednesday’s 224-point gain. Selling was broad-based, led by a fresh decline in energy shares….  Keeping rates higher is expected to be particularly tricky at year-end, when many investors unwind longer term bets and move into short-dates securities and cash, and banks rein in their activities. | | The Wall Street Journal | 12/18/2015 | Katy Burne |
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| Fed Move Gets Mixed Reaction From Central Banks | Anticipation of higher interest rates and stronger growth in the U.S. have pushed up the value of the dollar over the past year. That in turn has hit companies in emerging markets that borrowed heavily in dollars during the low-rate period. A stronger U.S. currency is making it more expensive to pay off those debts.  The Fed’s rate increase marks the start of a bout of divergence between the U.S. and central banks in the Eurozone and China, which are pursuing expansionary policies. | | The Wall Street Journal | 12/18/2015 | Harriet Torry |
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| Big Junk Dealer Weighs in on Rout | The executive overseeing Wall Street’s top high-yield bond desk says the market for such debt isn’t in a bubble, even as he forecasts sizable losses across the industry in the short term.  Junk bonds have tumbled this year, hitting four-year lows that have prompted investor outflows and sharp sell-offs in major asset managers. | | The Wall Street Journal | 12/19/2015 | Emily Glazer |
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| Dow Ends Week With Slide | In two days after the Federal Reserve gave investors exactly what they expected, the Dow Jones Industrial Average posted its steepest loss since a late-August plunge.  The back-to-back selloff erased 621 points from the blue chips-sending the Dow to its lowest level in two months and wiping out a three-session winning streak logged around the Fed’s liftoff for interest rates.  The fizzled rally underscores the difficult backdrop across markets as investors prepare to close out what is shaping up to be worst year for U.S. stocks since the financial crisis. | | The Wall Street Journal | 12/19-20, 2015 | Dan Strumpf |
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| Forecasters Bruised by Tough 2015 | This year, popular stock-market predictions didn’t always pay.  Oil prices were supposed to fall-but not by this much. Low energy prices were supposed to be a windfall for consumers and the companies that sell to them-but consumers didn’t spend as investors expected. The Federal Reserve was supposed to raise rates and lift the fortunes of bank shares-but the Fed didn’t act until the end of the year, and financial stocks languished.  Much of the year’s gains were concentrated in a small number of individual stocks, while popular macrolevel bets were dashed.  Last week’s volatile trading continued to upend the forecasts.  The financial and energy sectors of the S&P 500 have been laggards in 2015.  S&P 500 Index and sector performance this year:  S&P 500 -2.59%  Financials -5.51%  Energy -25.25% | | The Wall Street Journal | 12/21/2015 | Dan Strumpf |
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| What to Watch  *Investors better get used to wild stock swings* | ….volatility typically picks up after the start of a rate-tightening cycle, says Sam Stovall, U.S. equity strategists at S&P Capital IQ.  In fact, volatility was already on the rise going into the Fed meeting. Nearly two out of every three days this December, the S&P 500 rose or fell 1% on a closing basis, Stovall says. That is double the fewer than 30% of all trading days in 2015 that have had a 1% rise or fall.  If history is any guide, the swings in stock prices will get even more jarring from here. | | USA Today | 12/22/2015 | David Craig |
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| What’s News | ♦ The Dow advanced 165.65 points to 17417.27 in light preholiday volume as commodity prices rose. | | The Wall Street Journal | 12/23/2015 |  |
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| What to Watch  *A look ahead to 2016: One strategist’s call* | David Joy, chief market strategist of Ameriprise Financial, weighed in on 2016 in a client report. He says there are a few “important variables” that will determine if stocks go up or down next year.  He cites Federal Reserve rate hikes (and monetary easing by foreign central banks), the performance of the dollar and China’s economy as three keys. | | USA Today | 12/23/2015 | Adam Shell |
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| The Economy’s Big Weakness | Our economic trend that hasn’t done its bit for this 6 ½-year recovery: capital spending.  Hiring has improved, stock markets have rallied and consumer confidence has rebounded.  But U.S. corporations remain hesitant to deploy funds to new projects and equipment, or to upgrade facilities and technology. Instead, companies continue to shower shareholders with record levels of dividends and buy-backs.  This skittishness to spend has hurt productivity, weighing on the economy’s long-term growth prospects.  The lack of capital spending has taken an economic toll. U.S. economic growth is on pace to expand at less than 3% for a 10th consecutive year, the longest stretch in the postwar era. | | The Wall Street Journal | 12/23/2015 | Steven Russolillo |
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| What’s News | ♦ Money managers remain reluctant to by junk bonds, despite a selloff in the distressed-debt market. | | The Wall Street Journal | 12/24/2015 |  |
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| What’s News | ♦ U.S. stocks rose as an oil-price rally sent energy shares surging. The Dow gained 185.34 points to 17602.61. | | The Wall Street Journal | 12/24/2015 |  |
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| Financial Forecast 2016 | “Recessions follow expansions like night follows day”, says Ruchir Sharma, head of emerging markets and global macroeconomics at Morgan Stanley Investment Management. The only question: Where is the fault line?  The Fed has begun to raise interest rates as Europe and other parts of the world are lowering them to buoy growth. The means the world is headed for a “Great Divergence” in monetary policy.  That will take the global economy into new territory. With the U.S. in recovery, both rates and the dollar are likely to go up. That will make American goods more expensive and put the U.S. manufacturing sector under pressure. It’s possible that European manufacturing may consistently outpace that of the U.S. for the first time since the Great Recession.  That is one reason that some smart observers like Mohamed El-Erian, the chief economic adviser to the global financial firm Allianz, are predicting a 25% to 30% chance of return to recession in the U.S. by 2017. | | TIME Magazine | 12/28/2015 | Rana Forooha |
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| Chinese Markets Still Riding High  *After summer selloff, investors appear to be bullish as Beijing maintains its support* | Despite a summer swoon, the stock market hasn’t lost its appeal for many Chinese investors.  The Shanghai Composite Index is on track to end the year as one of Asai’s best-performance major benchmarks, up 9.3% as of Monday’s close, despite losing as much as 43% of its value over the summer.  The Shenzhen Composite Index has risen 63% this year and the ChiNext, composed of growth stocks and sometimes referred to as “China’s Nasdaq”, is up 86%.  By comparison, Hong Kong’s Hang Seng Index has lost 7.1% and Australia’s S&P/ASX 200 is down 3.8%. Japan’s Nikkei Stock Average is up 8.2% and South Korea’s Kospi has gained 2.5%. The S&P 500 is down 0.1%, while London’s FTSE 100 is down 4.7%. | | The Wall Street Journal | 12/28/2016 |  |
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| Retirement Bogeyman  *It may seem dead now, but inflation could wreck your golden years. What’s your insurance policy?* | Complacency is never in order with this animal. The present 0% rate blends an upward march of 2% in the cost of services with a collapse in the price of oil. If commodities rebound over several years, 4% inflation could surface.  Even 4% inflation does a lot of damage to your lifestyle. Over 18 years it cuts the value of a dollar in half. If it comes on suddenly it savages long-term bonds.  **TIPS:** The government started selling Treasury Inflation-Protected Securities in 1997.  A saver desiring to nail down a certain amount of future spending power can find no better tool.  If you need more liquidity, use a fund.  **GOLD:** The rising inflation that wrecked bonds in the 1970s also made gold a stellar investment. Since then, however, the results have been uneven.  **RESOURCE STOCKS:** If inflation comes back, an allocation to fuel or metals or lumber should furnish some protection. But getting that exposure is a tricky business. Commodity futures are a bad idea, says Boston money manager Jeremy Grantham, cofounder of GMO.  …Grantham expects the long-term trend in this century to be up…  If he’s right, companies with assets in the ground, efficient operations and strong finances will prosper. But even if he’s wrong – and even if inflation remains subdued – resource producers can still make at least some money.  In the short term, stocks of resource producers are very risky. But over the long term they can deliver. | | Forbes | 12/28/2015 | William Baldwin |
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| Bonds Signaling Unease Over U.S. | The U.S. bond market is flashing signs of uneasiness over the strength of the U.S. economy, as the Federal Reserve starts raising interest rates amid an uncertain global outlook and weak commodities.  The extra yield investors demanded to own the bench-mark 10-year Treasury note over the two-year note fell to as low as 1.17 percentage points during Tuesday’s session.  A steeper yield curve can suggest the economy is gaining traction, pushing investors to demand higher rates on long-term debt to offset the risk of inflation.  Gross domestic product, the broadest measure of goods and services produced across the U.S. economy, advanced at a 2% seasonally adjusted annual rate in the third quarter…  The growth rate was 1.3% this quarter through Dec. 23, according to the “GDPNow” economic model from the Federal Reserve Bank of Atlanta.  Meanwhile, developing nations, a main growth engine for the world economy, have been struggling. The sharp price decline in the commodities complex, led by oil, has created disinflationary pressure, making it more difficult for the Fed to push up inflation to its 2% target.  A stronger dollar driven by higher interest rates in the U.S. has generated capital flight out of many developing countries and caused local currencies to drop in value. | | The Wall Street Journal | 122/30/2015 | Min Zeng |
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| What’s News | ♦ The Dow snapped a two-day losing streak, rising 192.71 points to 17720.98. | | The Wall Street Journal | 12/30/2015 |  |
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| The Right Bonds for 2016 | …interest rates will not skyrocket (bond prices and rates move in opposite directions). Rates won’t climb much because, as the Fed said after its October meeting, global economic growth is tepid and inflation remains persistently low. A strong dollar also keeps rates low because it encourages foreigners to buy our Treasuries and corporate bonds. All this buttresses my view that low rates and bond yields are an entrenched fact of life and will be around the rest of this decade.  My yield forecast. Cutting to the chase, I expect the yield on the benchmark 10-year Treasury bond to range from 2.0% to 2.75% in 2016 (compared with 2.2% in early November). It’s true that if and when the Treasury prints 2.75% on a new bond due in 2026, an existing 10-year bond will lose roughly 6% of its market value. But bond prices and yields will bounce all year within that range. A temporary 6% hit is no more cause to boycott bonds than the 2015 correction in share prices was reason to quit stocks.  For 2016, I suggest that you adhere to a core-and-satellite strategy. The core of your bond portfolio should be a high-grade, medium-maturity mutual fund or exchange-traded fund.  The target corners of the vast bond marketplace that pay you the most extra income for the least amount of risk. (Tax-exempt municipal bonds are the leading example….  Many long-term corporates with triple-B ratings are now paying about 2.5 percentage-points more than comparable government debt, meaning you can get yields of about 5% on IOUs from solid, though not pristine, borrowers.  I am much less sanguine about high-yield bonds because of the heavy representation of energy companies in the junk-bond market. | | Kiplinger’s Personal Finance | 12/31/2015 | Jeffrey R. Kosnett |
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| Markets Digest | **Major U.S. Stock-Market Indexes**  (Year End 2015)  **Dow Jones**  Industrial Average  Transportation Average  Utility Average  Total Stock Market  Barron’s 400  **Nasdaq Stock Market**  Nasdaq Composite  Nasdaq 100  **Standard & Poor’s**  500 Index  MidCap 400  SmallCap 600  **Other Indexes**  Russell 2000  PHLX§ Gold/Silver  PHLX§ Oil Service  **International Stock Indexes**  World – The Global Dow  Europe – Stoxx Europe 600  Germany – DAX  U.K. – FTSE 100  China – Shanghai Composite  Hong Kong – Hang Seng  Japan – Nikkel Stock Average  **Interest Rates (Year End)**  Federal-funds rate target  Prime rate  Libor, 3-month  Money market, annual yield  30-year mortgage, fixed  15-year mortgage, fixed  **Corporate Borrowing Rates & Yields**  10-yr Treasury, Ryan ALM  Barclays Capital Aggregate | YTD  -2.2  -17.8  -6.5  -1.5  -4.5  5.7  8.4  -0.7  -3.7  -3.4  -5.7  -34.1  -25.2  -6.6  6.8  9.6  -4.9  9.4  -7.2  9.1  0.25-0.5  3.50  0.61  0.27  4.08  3.34  Last Yield (%): 2.273  Total Return (%) 52-wk: -0.877  Last Yield (%): 2.600  Total Return (%) 52-wk: 0.546 | The Wall Street Journal | Reported results as of 12/31/2015 |  |

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