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- The S&P 500 fell 0.73% for the year, but had a 1.38% return when you include dividends.
- Treasury prices fell last year, with 2-year yields topping 1% for the first time since 2010, while the yield on 10-year Treasury notes climbed just 2.8 basis points to end the year at 2.242%.
- Crude oil sank 30.5% in 2015, completing its largest two-year slump on record, down over 50% since 2013.

Generally speaking, U.S. equity markets ended 2015 pretty much where they began. The S&P 500 started the year at 2,059 and ended at 2,044. This return marked the first price loss in the index since 2008. Like in 2011 when the index finished flat, dividends made the difference, pushing total return performance into positive territory. On a total return basis, U.S. stocks ended slightly higher in 2015, keeping the bull market intact for a seventh year. Overall for the year, the S&P 500 rose as much as 3.5% and was down 9.3% at its low in late August, finishing the year 4% below its all-time high 2,130 reached in May. The Dow Jones Industrial Average fell 1.52% in December, trimming quarterly and full-year returns to 7.70% and 0.21%, respectively. The technologyfocused NASDAQ Composite fared considerably better, falling 1.91% last month, reducing a strong fourth quarter rally to 8.71% and its 2015 return to 6.96%.

Investors began the year worrying about weakening oil prices, reduced corporate earnings growth and when the U.S. Federal Reserve would begin raising interest rates. Even as employers added jobs at a solid pace during the year and consumer confidence improved, several additional issues weighed on sentiment. Equity valuations had climbed to new highs, but by late May, concerns resurfaced as Chinese growth began slowing. China experienced further woes after Beijing initiated a crackdown on trading abuses and excess leverage, sparking a 32% plunge on the Shanghai Composite Index. Less than two months later, China's central bank surprised world markets by deeply devaluing its currency, triggering the largest drop in the yuan since 1994. The move caused havoc around the globe, with the S&P 500 plummeting 11.3% to 1,867 on August 25.

As we had forecasted in our third quarter report, the Fed waited until their December policy meeting to raise interest rates, lifting its key Fed Funds rate by ¼-point to a new target range of 0.25% to 0.50%. Fed Chair Janet Yellen forecast that interest rates may rise to 1.375% by the end of 2016, implying up to four ¼-point rate increases during the year. Even with the first interest rate hike in almost a decade, with third quarter earnings coming in better-than-expected, a strong fourth quarter rebound brought the Russell 3000, the broadest measure of U.S. equity performance, back to just above where it began the year.

Small-cap U.S. companies underperformed relative to large-cap stocks during December, the fourth quarter and for the year. The Russell 2000 Index, a broad measure of small-cap equity performance, fell 5.02% last month, gained 3.59% during the fourth quarter and declined 4.41% in 2015. The Russell Mid Cap Index lost 2.68% in December, rebounded 3.62% in the fourth quarter and fell 2.44% over the past 12 months.

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Market Monitor

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THE TEN-YEAR NOTE - The yield on the 10-year Treasury note ended 2015 at 2.27%, just 0.1 of a percentage point higher than the 2.17% it finished at the end of 2014. The yield on the 10-year note was 2.30% on 12/16/15, the day the Fed raised short-term rates for the first time in 9 ½ years (source: Treasury Department).

HOUSING - The average interest rate nationwide on a 30-year fixed rate mortgage was 4.01% at the end of 2015. The record low national average was 3.31% as of 11/22/12 or just over 3 years ago (source: Freddie Mac).

OIL PRICES - The price of oil ended 2015 at $37.04 a barrel, down 30% (and $16.23 a barrel) from its 2014 closing price of $53.27. From a 6/20/14 closing price (i.e., just 1 ½ years ago) of $107.26 a barrel, the price of oil has fallen 65% through the end of 2015 (source: CME Group).

Large-cap growth stocks outperformed value last month and to a greater degree in the fourth quarter and the year. The Russell 1000 Growth Index fell 1.47% last month, but advanced 7.32% during the fourth quarter, while the Russell 1000 Value Index lost 2.15% in December and rose 5.64% during the quarter. Growth stocks ended the year with a 5.67% return, but their value counterparts fell 3.83%.

Six of the ten major sector groups declined in December, with Energy (-9.87%) and Materials (-4.16%) falling the most, while Consumer Staples (+2.86%) led among gainers. For the quarter, all ten sectors advanced, led by Materials (+9.69%), Healthcare (+9.22%) and Technology (+9.17%). In full-year performance, two major themes become apparent. Reflecting weak oil, a strong U.S. dollar and slowing global growth, Energy (-21.12%) and Materials (-8.38%) fell the most, while improving consumer confidence gave Consumer Discretionary (+10.11%) top honors for the year, followed by Healthcare (+6.89%).

A handful of leading large-cap online retailers and streaming entertainment companies performed best within the S&P 500, while seven of the ten largest decliners were all energy-related. The natural gas industry saw the three worst performers losing between 70%-80% of their value last year. As mentioned, oil capped its biggest two-year loss on record as domestic supplies rose 102 million barrels over the year, the largest oil inventory jump since at least 1920, according to government data. While U.S. shale oil producers greatly reduced their rig counts, OPEC members refrained from reducing output and instead boosted production and abandoned output limits altogether.

Turning to foreign equity markets, the MSCI EAFE Index, measuring returns on developed markets outside the U.S. and Canada, outperformed relative to U.S. equities in December. However, it underperformed the U.S. during the fourth quarter and for the year. This index fell 1.35% last month, while gaining 4.71% in the fourth quarter and lost 0.81% in 2015. In Europe, France and Germany performed best, returning 11.95% and 9.56%, respectively. Britain's FTSE 100 fell 1.03% last year. The MSCI Emerging Markets Index fell 2.23% in December and rose 0.66% in the fourth quarter, slightly paring its 2015 loss to 14.92%. Brazil's Ibovespa Index sank 13.31% on the year.

With an outlook for higher Fed rates that eventually materialized in December, the Barclays U.S. Government Bond Index lost 0.17% last month, extending a fourth quarter loss to 0.91%, trimming its 2015 gain to 0.86%. Investment grade bonds, as measured by the Barclays U.S. Aggregate Bond Index, retreated 0.32% in December, widening its fourth quarter loss to 0.57%, which pared its return last year to 0.55%. At the other end of the credit spectrum, the Barclays U.S. Corporate High Yield Index, which measures returns on below-investment grade corporate bonds, lost 2.52% in December, capping the quarter and year with losses of 2.07% and 4.47% respectively. The Barclays Municipal Bond Index rose 0.70% last month, extending its quarterly return to 1.50%. Municipals gained 3.30% for the year, the best performing bond sector.

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