Miller Wealth Advisors, LLC

Planning for life. Preparing for a lifetime.

Quarterly Economic Commentary: 4th Quarter 2015

Bill Miller, CFP®, CLU, ChFC, AEP®
Registered Principal

I am writing to provide an overview of how last year's markets performed and briefly share some thoughts on the outlook for the period ahead. These days, most newspaper headlines paint a dim view of the future. Without dismissing the very real issues that we are facing around the world, I want to share why we should be optimistic about what lies ahead. But first, let's summarize market performance in 2015.

There were four economic factors that cast a big shadow over markets in 2015 – uncertainty about the timing of the interest rate increase by the Federal Reserve Board that finally materialized in December, the impact of corporate profits from oil prices that fell over 30%, a rising U.S. dollar and questions about growth in China. I'll expand on oil and the strengthening dollar.

With a sharp decline in the price of oil, the energy sector saw a sharp drop in profits and share prices for the sector fell by 26%. Other sectors whose stock prices declined were materials, down 10% as demand for minerals and other commodities declined.

The stronger dollar hurt profits in two ways: Companies relying on exports were challenged as the cost of their goods increased in foreign markets. And second, for multinationals the rise in the dollar led to a decline in the value of profits in their overseas subsidiaries.

Large company stocks, as represented by the S&P 500 index, fell 0.7% last year[1]. An economic recovery and easy monetary policy helped European stocks (Stoxx Europe 600) to rise by 6.7% in 2015; however, the MSCI EAFE index that tracks European and Asian stocks as a whole fell by 4.78% due in large part to investors' concerns about the Chinese economy[2]. The worst performing sectors in 2015 were emerging market stocks and natural resources, down 15.81% and 24.16% respectively[3]. We've clearly been stuck in a time where globally diversified portfolios have underperformed domestic stocks, but relative asset class returns have historically rotated over time.

Despite the weakness in stocks, investment grade corporate and government bond returns were surprisingly slightly negative for the year, with high yield bonds faring the worst falling 5.03%. The high concentration of energy companies in the high-yield sector contributed to its poor performance. Also, most bond investors chose to wait out the Fed's decision to increase interest rates which resulted in a lower demand for most bonds.

There are real concerns about the future that go beyond the headlines of weakness in China and softening demand for oil throughout the world. These concerns include stalled economic growth almost everywhere, continued uncertainty over whether the European Union can remain intact and the rise in religious-based terrorism in the Middle East and Africa.

In fact, you may even feel tempted at times to sell out of your investment and keep your funds in safer instruments like CDs or savings vehicles. However, I would urge you to remain steadfast in your investment strategy and be optimistic for three reasons:

- *The U.S. economy is strong*. The increase in interest rates in December reflected a U.S. economy that is showing real strength. A report released at the beginning of this year showed that almost 3 million new jobs were created in 2015 and unemployment dropped to 5%, half the level that we saw in 2009.

- *Oil prices boost consumer spending.* While declining oil prices hurt oil producers, they provide consumers with a big lift. Lower oil prices will help fuel consumer spending around the world.

- *A recovery in corporate profits*. The impact of a stronger dollar and lower oil prices is already reflected in 2015 profits. Provided that we don't see more declines in oil or more strength in the dollar, the negative impact on profits is behind us. Current forecasts are for profit increases by U.S. companies this year of over 7%.

We've successfully overcome tough challenges in the past and these are just a few more reasons to adopt a positive outlook and to believe that we work through the current challenges. A key lesson from successful investors is the importance of not just starting with a diversified portfolio but maintaining that diversification as markets rise and fall. I design investment portfolios for my clients with an individualized risk-adjusted view when looking across a full-market cycle. To do that, we look at the broadest possible range of alternatives, both within the United States and around the world. I would welcome the opportunity to review your portfolio and its results to date to help ensure that you continue to meet your goals.

Sources:
1. *Wall Street Journal, Stocks Post Worst Year Since 2008, January 2, 2016*
2. *Wall Street Journal, Year End Review and Outlook, January 4, 2016*
3. *ValMark Advisers, 4th Q 2015 Market Update, January 13, 2015*

Past performance is not a guarantee of future results. It is also important to note that one cannot invest directly into an index. Diversification cannot assure a profit or guarantee against a loss of value.