KALOS *Market Commentary*

January, 2015

2014 Ending Strong, 2015 Looks Good Too

This December has provided a very Happy Holiday for equity investors with a strengthening economy boosting most global equity markets. In late December, the Commerce Department revised its third quarter GDP estimates up to a 5.0% annual pace, the fastest pace in 11 years. The recent upward revision after a strong second quarter 4.6 % growth rate has given America its two strongest back-to-back GDP increases since 2003. While the pace of growth will likely slow a bit in fourth quarter, the annualized 2014 GDP increase should still easily rank as the strongest since the 2008 recession, with growth finally reaching levels more typically enjoyed after a severe downturn.

Not surprisingly, the U.S. stock market was buoyed by the news. The Dow Jones Industrial Average closed above 18,000 for the first time ever on December 23rd. Both the Dow Jones and the S&P 500 again reached new highs on December 26th, with the S&P 500 hitting its 52nd record close of the year, the most since 1995 and the fourth-best annual record ever. And December still has three more trading days. The Russell 2000, an index of mid-sized and smaller companies, also climbed to an all-time high, while the Nasdaq Composite Index, which includes many technology companies, reached a level unseen since the heady dot-com days of early 2000.

The strengthening economy and advancing stock market increases the odds that the U.S. central bank will begin raising interest rates in 2015 after holding them near zero since late 2008. Still, the Federal Reserve has said it will wait until at least next April before they consider a rate increase, which should continue to encourage investors.

Fueling 2015 growth expectations, personal income, jobs, and consumer confidence are all improving. Personal and corporate balance sheets have strengthened, and federal, state and local fiscal policies are all more stable and generally, more predictable. For 2015, BofA Merrill Lynch predicts U.S. GDP growth at 3.3%, global real GDP growth of 3.7% (up from 3.2% in 2014) and Euro area GDP growth of 1.2%. While Euro area growth of 1.2% may not be impressive, it's positive and keeps the region well clear of recession.

Oil prices have almost halved over the last six months as increasing volumes of light, high-quality crude from North American shale have overwhelmed demand. For the United States, lower oil costs are widely considered an overwhelming positive in the long run, although the severe drop in prices is already causing layoffs and a drop in investment in the energy industry. OPEC appears to be trying to choke off increased U.S. production which has spurred much of the global price decline.

Petro-states such as Russia and Nigeria have seen their currencies plunge, and nearly all oil economy officials are in a state of shock. The acute price declines have severely reduced the ability of Iran, Russia, and Venezuela to play destabilizing roles globally, and their diminished power could even force them into more nuclear concessions. There's an ongoing joke in financial circles that China will be buying Venezuela in the near future. Although the idea seems far-fetched, it hints at the desperation of many oil-based economies that need oil prices to

KALOS MANAGEMENT

11525 Park Woods Circle | Alpharetta, GA 30005
1.888.356.1950 | 678.356.1100
www.kalosmanagement.com

remain above certain levels to finance their oil-welfare states.

U.S. manufacturing output recorded its largest increase in nine months in November as production expanded across the board, highlighting another ongoing strength in the economy. The gain in manufacturing and utilities combined to lift overall industrial production by 1.3% in November, the largest gain since May 2010.

New home sales are returning to more normal levels, and growth for 2015 and 2016 is projected at around 18% and 13% respectively, albeit with the increases coming from extreme recent lows. Existing home sales increases are likely to remain solid at 5% in 2015 and 3.2% in 2016.

Overseas, growth in Germany, Europe's biggest economy, could be better than expected next year, and the situation in Europe is not as bad as many people think according to the president of Germany's Bundesbank. He even backed up his claims by opposing European Central Bank plans to buy sovereign bonds, a move intended to spur the economy.

The combination of stronger U.S. growth, lower energy prices, and cyclical rebounds in several big economies such as India and Brazil should push economic growth in emerging markets to 4.5% next year, up from 4.2% in 2014. East Asia will continue to set the pace for global growth in the year ahead.

The dollar is likely to continue to strengthen in 2015 as the U.S. economy outperforms and the Fed moves to exit its extended bond-buying program. Low inflation is driving policies across the globe. U.S. core inflation should remain well below the Fed's 2% target at about 1.5%. Globally, concerns focus more on disinflation. In 2015, Japan is expected to focus on ending deflation, while Europe still must deal with outright deflation. The combination of a strong U.S. dollar, higher interest rates and relatively subdued growth should keep other commodity prices, including oil, in check in 2015. Still, base metals, particularly aluminum and zinc, should perform relatively well on falling inventories, though copper is less certain. Gold prices could fall to $1,100 per ounce.

While I believe the recent period of very strong stock market returns and relatively low volatility are in the past, the strengthening U.S. economy and a recovering global economy suggest that the bull market in stocks will continue, but at a more subdued and uneven pace. Numerous trends, including a rapidly strengthening labor market, improved manufacturing, lower energy prices, more solid housing market, improving consumer sentiment, more business friendly government policy, and many additional factors should continue propelling the economy forward in 2015, and likely with it, equity markets. Today's higher equity market valuations could make a correction more likely, and lower energy prices could destabilize various governments that are already shaky. But, the overall trend should continue up, bringing more good cheer to equity investors willing to endure a ride that may be bumpier than past years'. We wish you a prosperous 2015!

Daniel Wildermuth
Kalos Management, Inc.
CEO

11525 Park Woods Circle, Alpharetta, GA 30005
Phone: 678.356.1100, Toll Free: 866.525.6726,
Facsimile: 678.356.1105,
ClientServices@KalosFinancial.com