2016 OUTLOOK: PART 2

February 25, 2016

THE FED

Last December, the Federal Reserve raised interest rates for the first time in nine years based upon the expectation that employment and inflation will hit targets that reflect a healthy U.S. economy. The Fed predicts inflation will approach their target in 2016. However, this is the same prediction it has made over the past four years. If the Fed is wrong again, it may find it raised interest rates too soon, contributing to the risk of the U.S. economy slipping into a recession. The mystery of the Fed's decision regarding interest rates for 2016 continues to play a pivotal role in the stock market's volatility.

GLOBAL SLOWDOWN

Since January, the mainstream press has compared much of today's global slowdown to the 2008 U.S. economic recession. To be sure, the main reason for our stock market's volatility and recent decline has been the result of events occurring outside of our country. As we all know, the world nowadays is firmly interconnected by technology. Good or bad, what happens in China, Japan or Europe does matter to us.

The slowing economic growth in China has been well documented over the last couple of years, but really didn't impact worldwide financial markets until last August. This slowdown has caused a steep drop in worldwide commodity prices - with crude oil being the poster child for this event. The Chinese economy is in a transition mode from government-sponsored growth to a consumer-driven economy. This is not a painless process and it will take many years to fully evolve. Exasperating news coming out of China is the lack of credible economic data presented by Chinese political leadership. Uncertainty of their data is a major driver of price volatility in the world's financial markets.

The refugee crisis out of the Middle East has had a dramatic effect on the economies of European countries (to say nothing of the human tragedy). While it is possible for the world's slowing economies to drag the U.S. into a recession, we currently put that probability at a low 20%. We still expect positive annual Gross National Product (GNP) growth for the U.S. economy to be a modest 2% for this year.

CONCLUSION

For 2016, we see modest but continued growth in consumer spending and job creation. Uncertainty with respect to the interest rate policy of the Federal Reserve, declining manufacturing activity, and lower corporate earnings will continue to fuel the market's volatility. Overall, the U.S. remains the brightest spot in the global economy, in large part due to a healthy American consumer.

The global economic, financial, and political environment will remain fragile throughout this year - caution is advised. As always, we will do our best to keep you well informed and provide timely - proactive guidance.

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