THE PRIVATE CLIENT GROUP

WEALTH MANAGEMENT

Economic & Market Review

~YEAR-END 2015 NEWSLETTER~

Executive Summary

Troubling economic fundamentals mattered not to investors in the first half of 2015. The meteoric rise of the U.S. dollar was unrelenting, earnings growth stalled, and commodities continued to tank. Nevertheless, aside from somewhat isolated pockets of weakness, the promise of aggressive central banks seemed to hold the capital markets together in the face of headwinds.

Into mid-year, however, things became, well, unglued. Starting with the bursting of a Chinese stock market bubble in June, a web of financial and economic uncertainty swept the globe, ultimately ensnaring the U.S. stock market by August. Although markets recovered valiantly in October, the tone of investment markets had changed and investors became reacquainted with volatility. Moreover, the intensity of "Fed watch" and the second guessing of U.S. monetary policy took on a life of its own. By December 31, what started out as a rather innocuous year had morphed into what some investors have dubbed a "lost year" for investing. U.S. stock and bond markets were generally flat, international developed market investments were hurt by dollar strength, and emerging markets were hammered by weak currencies, financial pressures, and commodity weakness. Commodities themselves were obliterated, capping off their fifth consecutive year of decline.

So what is in store for 2016? Perhaps the best thing to recognize is that expectations are modest to low for the first time in recent memory. Historically speaking, combining a diminished outlook with weak previous year performance has often proven to be a good marriage for investors. Likewise, the dreaded first move by the Federal Reserve is under our belts, and investors have removed their rose colored glasses. This may suggest a greater ability to take hiccups and bad news in stride. The consensus suggests the dollar may continue to rise modestly, but the big move is over and the currency is grossly overvalued against many others. Most commodities are at multi-year, if not decade, lows and well below replacement cost. As they say, the best solution to low commodity prices....is low commodity prices. Currency and commodity relief would go a long way to supporting embattled multinationals, commodity producers, emerging markets and international investments in general.

Despite some positives, global economies are weak and earnings growth will be challenged. Valuation multiples, presently elevated, have compressed during each and every Federal Reserve tightening campaign over the past 35 years. Interest rates are also low. Regardless of a flat or upward bias to interest rates, bond returns will be low and cannot conform to historical norms. Other interest rate sensitive investment categories may face headwinds as well. All told, although positive returns are well within the range of possibilities, high returns over the coming year have a diminished likelihood.

In closing, through the colossal failures this year of heretofore "brilliant" investment managers, we are reminded of the extraordinary humility the investment markets can thrust upon those that think they can outsmart the system. Perhaps at no other time in this writer's career have the pathways of interest rates, inflation, commodity prices, and currencies been more challenging to forecast. Yet, these are the very drivers behind the successes and failures of the investments we make. The only reasonable response is to maintain a broad, globally diversified portfolio that conforms to an appropriate level of risk. Such a portfolio will unquestionably have its share of winners and losers. It will also always outperform ill-fated, poorly timed, concentrated bets that "should not" but often do, go awry.

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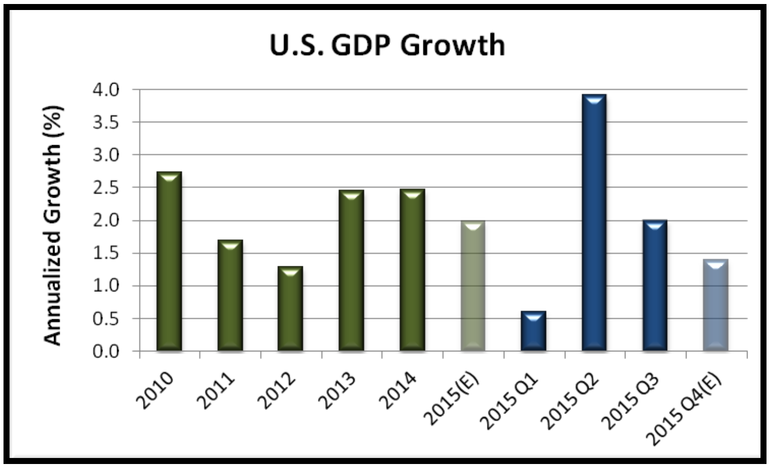
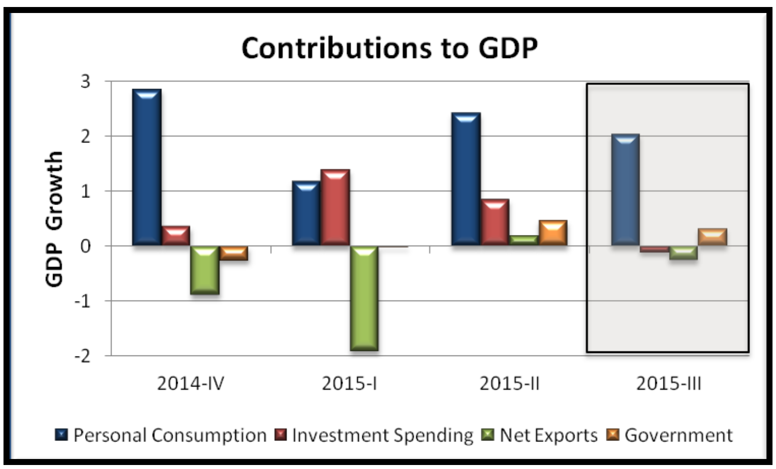
ECONOMIC REVIEW AND OUTLOOK

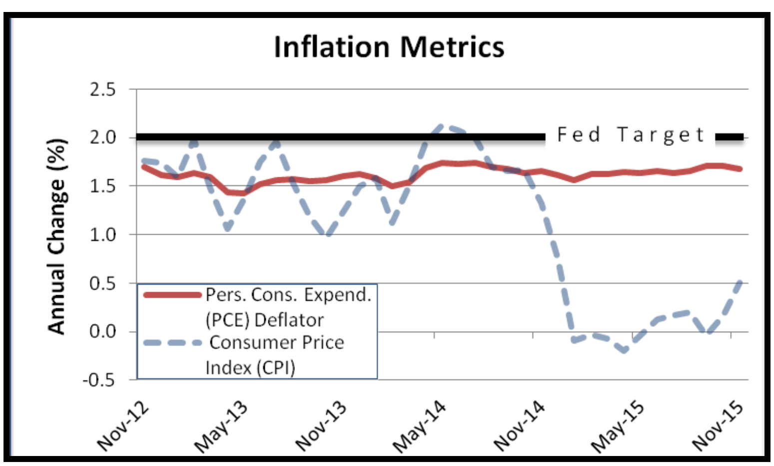
Key Economic Fundamentals



Data Source: U.S. Department of Commerce



Data Source: U.S. Department of Commerce



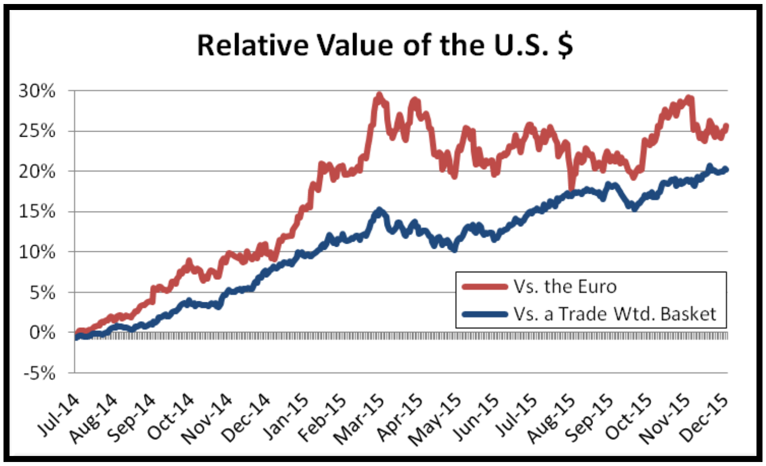
Data Source: U.S. Department of Labor

Although U.S. growth outpaced many other developed economies last year, 2015 was not the breakout period many hoped it would be. As the year drew to a close, weak manufacturing and construction activity left the domestic economy looking frail, and trade was a drag.

Growth in the third quarter was driven exclusively by the consumer. Outside of continued favorable growth in housing, investment spending was a negative, and dollar strength weighed on trade dynamics. Government spending, particularly at the state and local level, was a modest positive.

Although low inflation is generally a worldwide concern, the Federal Reserve felt comfortable enough in the outlook to raise interest rates, in December, for the first time in nearly a decade. While some evidence suggests wage pressures are building, the continued drop in oil prices will weigh on inflation in coming months.

The U.S. dollar has risen in excess of 20% over the past 18 months. Though seemingly positive, dollar strength detracts from international investment returns, diminishes the competitiveness of U.S. based multinational companies, negatively impacts the U.S. trade balance, pushes commodity prices down, and introduces deflationary forces on the domestic economy.



Data Source: U.S. Federal Reserve

Accordingly, the graph above is the single most important fundamental factor to encapsulate, and explain, the economic developments and capital market behavior of 2015. The current profit recession in the U.S., negative international investment returns, plummeting commodity prices, strains on emerging economies, capital flight from China and the country's currency weakness — all have their roots in dollar strength.

Led by the U.S., advanced economies grew at the same rate in 2015 as the prior year.

Global Growth Rates (%)

	Q3 2015	Q4 2015	Q1 2016	2014	2015	2016
Advanced	**1.9**	**1.9**	**2.0**	**1.9**	**1.9**	**2.0**
Euro[1]	1.2	1.8	1.6	0.9	1.5	1.7
U.S.[1]	2.0	1.4	2.3	2.4	2.4	2.2
Japan[1]	1.0	0.7	1.6	0.0	0.7	1.2
U.K.[1]	1.8	2.8	2.9	2.9	2.2	2.6
Canada[1]	2.5	1.9	2.1	2.4	1.2	2.0
Emerging	**4.2**	**4.2**	**4.6**	**4.9**	**4.3**	**4.8**
China	6.9	6.9	6.8	7.3	6.9	6.4
India	7.4	7.6	7.8	7.1	7.4	7.8
Russia	-4.1	-2.9	-0.4	0.6	-3.5	1.5
Brazil	-4.5	-5.1	-4.6	0.1	-3.6	-2.3
World	**3.1**	**3.0**	**3.3**	**3.4**	**3.1**	**3.4**

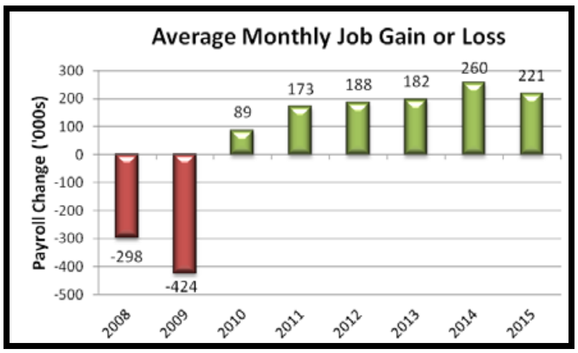
Data Source: Goldman Sachs, Central Intelligence Agency
[1]Quarterly numbers are sequential annualized, others are year-over-year
Note: Q3 2015 and 2014 are actual, all others are forecasts

In contrast, emerging market growth continued to falter, as it has since 2010. Continued slowing in China and substantial recessions in both Russia and Brazil weighed on growth in developing nations.

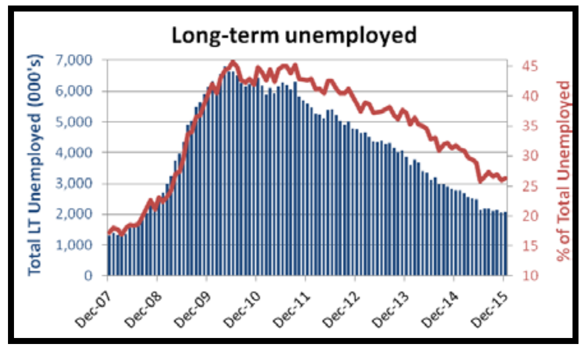
Employment

The labor market persistently improved in 2015. Payrolls continued to grow, albeit at a slower pace than 2014, and the percentage of long-term unemployed ticked lower during the year. Initial jobless claims fell to a multi-decade low, and some evidence of wage pressure surfaced for the first time in years. Even the previously moribund labor force participation rate ticked ever so slightly higher into year-end (barely discernible in the chart).

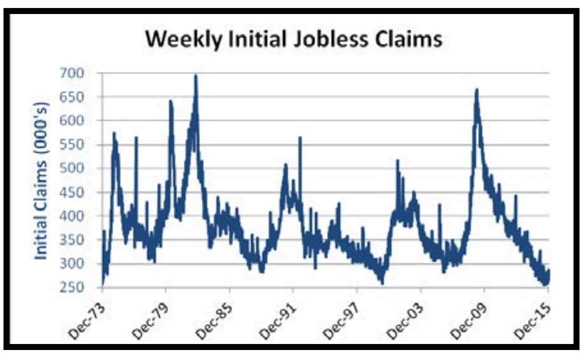
Burgeoning wage growth and a diminished unemployment rate were no doubt key drivers behind the Federal Reserve's December decision to raise U.S. interest rates for the first time in nearly a decade.



Data Source: U.S. Department of Labor



Data Source: U.S. Department of Labor



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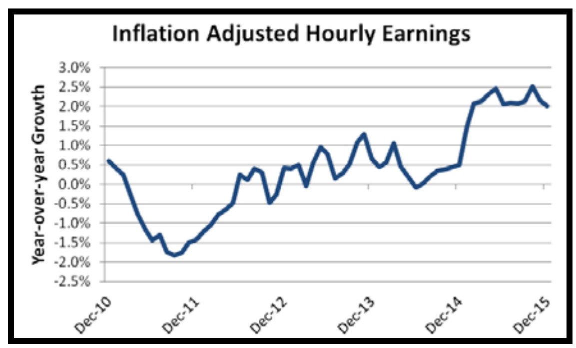

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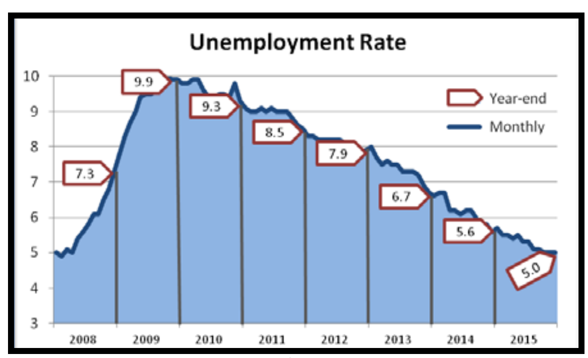
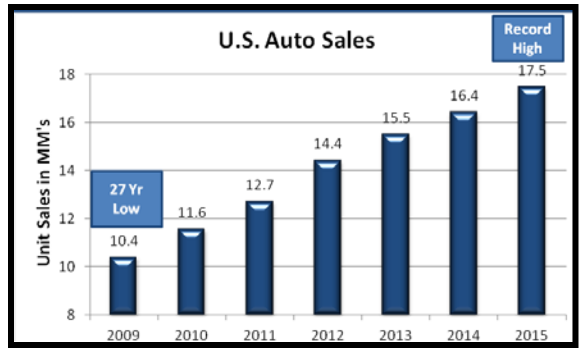


Data Source: U.S. Department of Labor

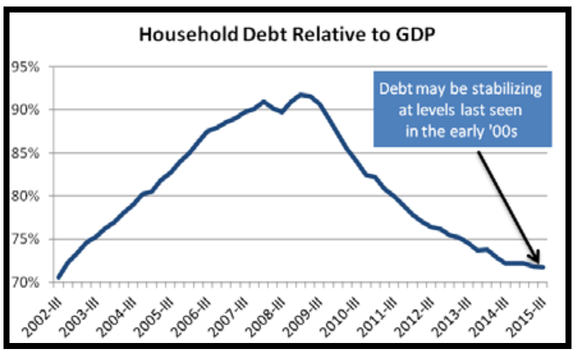
Consumer

A 2.7 million boost in jobs and a hint of wage growth were sufficient to keep consumers reasonably confident in 2015. Of course, average gasoline savings of $880 per household did not hurt either. Contrary to expectations, however, consumers were fiscally conservative with their newfound wealth. Yes, spending on big ticket items rose and car sales hit an all time high, but consumers also paid off debt and increased savings. The result? Debt relative to GDP continued to decline and the personal savings rate hit the highest level since 2012.

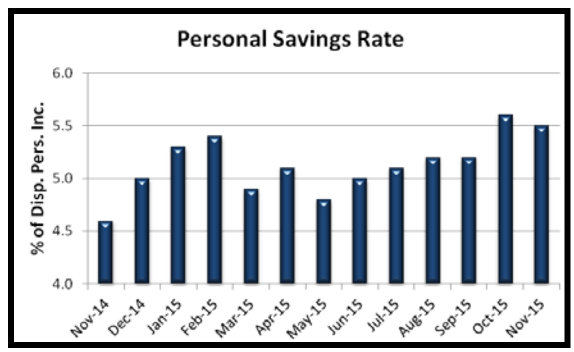
Data Source: The Conference Board



Data Source: Bloomberg



Data Sources: U.S. Bureau of Econ. Analysis/ U.S. Federal Reserve

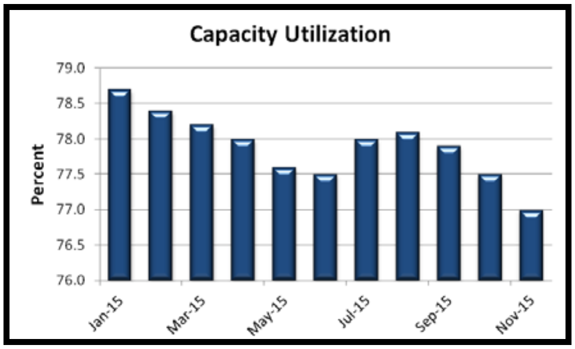


Data Source: U.S. Federal Reserve

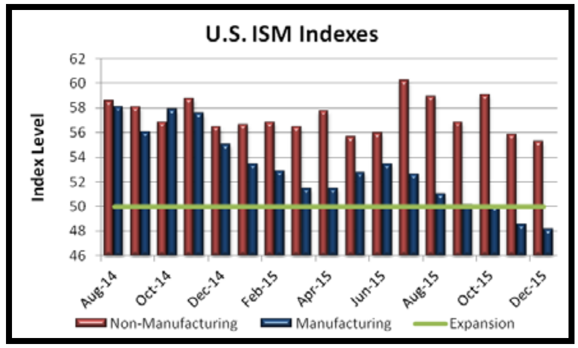
Business Activity

As shown by graphs on the following page, the service sector is cooling and manufacturing is unquestionably weak. Capacity utilization has plummeted, and the Institute for Supply Management's Manufacturing Index points to contraction in the fourth quarter. Key culprits are weak global growth and dollar strength, which weigh on exports, and oil price weakness, which has decimated capital investment in the energy industry.

Whereas the labor market may hint at the need for higher interest rates, inflation (discussed earlier) and manufacturing confirm no such thing. It is no doubt why private economists expect no more than two rate hikes in 2016 despite Federal Reserve projections for four.



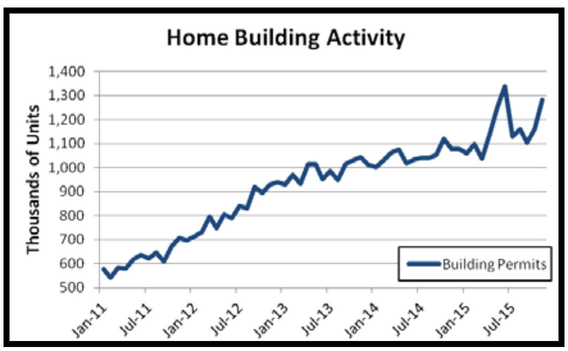
Data Source: U.S. Federal Reserve



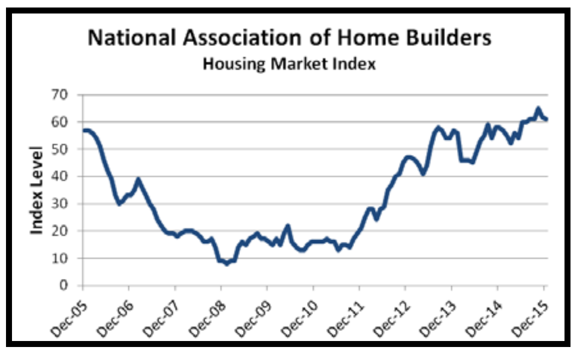
Data Source: Institute for Supply Management

Real Estate

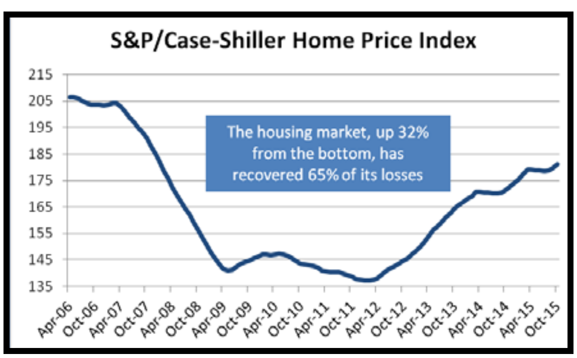
The housing market improved in 2015. Building activity increased, home builders remained quite positive, and home prices rose. Mortgage rates are attractive and should remain so provided inflation continues to be tame and the Fed moves according to plan (i.e. slowly). Despite the positives, developing headwinds bear watching. First, builders have reported shortages in both labor and land. Absent relief, either will act to cap activity. Second, for 37 consecutive months year-over-year housing price gains have averaged in excess of 4%. In recent months, price gains have only accelerated. Considering tepid wage gains, home buyers are increasingly being priced out of the market. Unless wage gains accelerate, housing will fall victim to its own success.



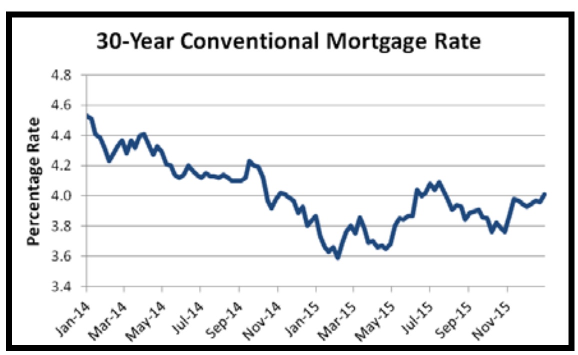
Data Source: U.S. Census Bureau



Data Source: National Association of Home Builders



Data Source: S&P/Case-Shiller



Data Source: U.S. Federal Reserve

CAPITAL MARKETS REVIEW

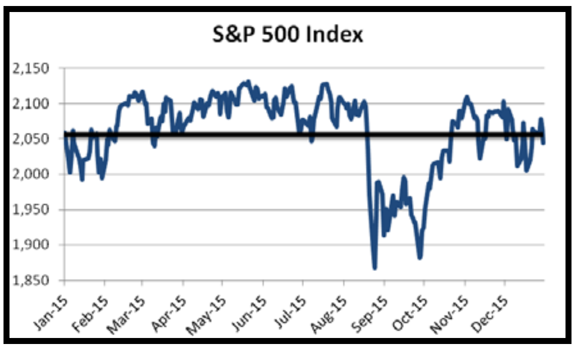
Returns

	4th Qtr 2015	Full Year 2015
Cash and Fixed Income		
U.S. Treasury Bills	0.0 %	0.0 %
Barclays U.S. Aggregate Bond	-0.6 %	0.5 %
Barclays Municipal Bond	1.5 %	3.3 %
Barclays Global Agg. ex. U.S.	-1.3 %	-6.0 %
Hedge Funds and Alts.		
Bloomberg Commodity	-10.5 %	-24.7 %
DJ US Real Estate	7.2 %	2.1 %
HFRI FOF Composite	0.6 %	-0.4 %

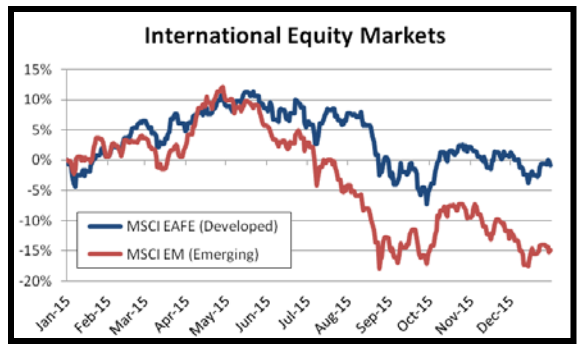
Data Sources: Morningstar & Hedge Fund Research, Inc.

	4th Qtr 2015	Full Year 2015
Domestic Equities		
Wilshire 5000	6.4 %	0.7 %
S&P 500	7.0 %	1.4 %
Russell 2000	3.6 %	-4.4 %
International Equities		
MSCI ACWI ex. U.S.	3.5 %	-4.6 %
MSCI EAFE (Developed)	4.7 %	-0.8 %
MSCI EM (Emerging)	0.7 %	-14.9 %

Equity Markets

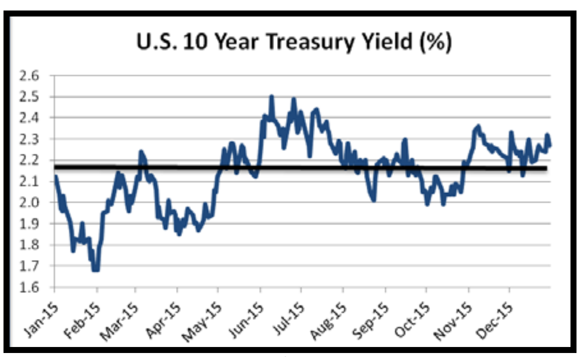


Data Source: S&P Dow Jones Indices LLC

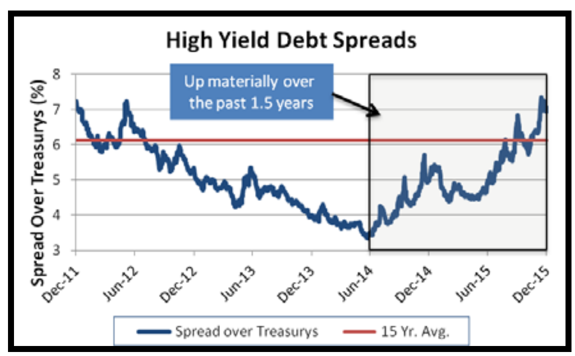


Data Source: Morningstar

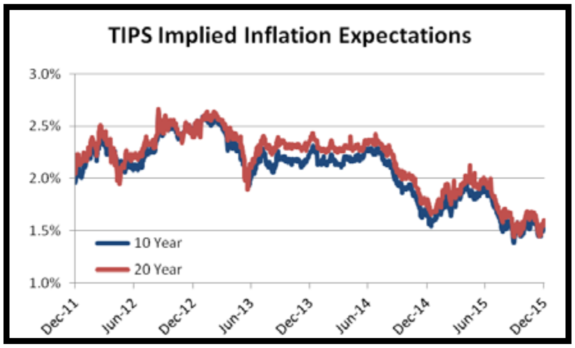
Fixed Income Markets



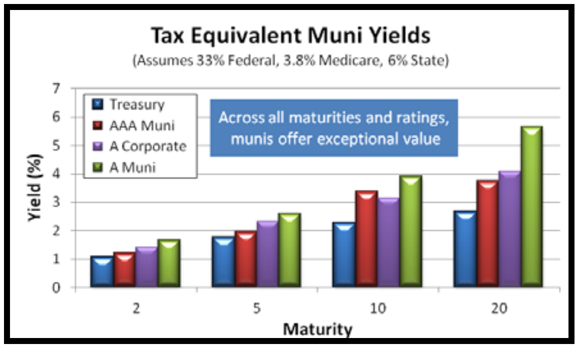
Data Source: U.S. Department of the Treasury



Data Source: BofA Merrill Lynch

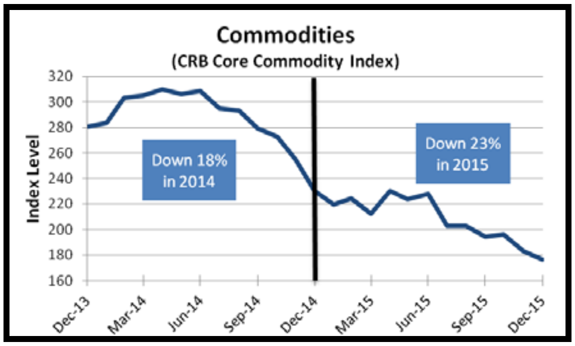


Data Source: U.S. Department of the Treasury

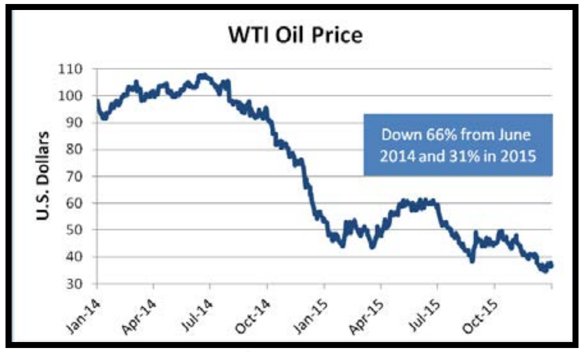


Data Sources: U.S. Department of the Treasury/BondsOnline.com

Alternatives



Data Source: Thomson Reuters



Data Source: US. Energy Information Administration

Disclaimers