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ECONOMY: Fed Finally Raises Rates

LATEST REVISION OF GDP

The latest estimate for third-quarter GDP showed an annualized growth rate of 2.0%, down from 2.1% previously. A slower pace of inventory building resulted in a 0.7% point drag compared to just 0.6% previously.

FED FINALLY HIKES

Seven years after cutting rates to near-zero for the first time in history, the Federal Reserve raised the federal funds target range to 0.25% to 0.5%. In its policy statement, the Fed expressed confidence in the U.S. labor market and overall economy.

NOW WHAT?

The key to future rate hikes and long-term yields is inflation. It will depend on whether inflation firms as the Fed anticipates, its tolerance for inflation below 2% if it does not, and the path of inflation expectations. Fed Chair Yellen reinforced the view that ultra-low inflation is “transitory.”

LABOR MARKETS STRONG TO END YEAR

Nonfarm payrolls rose by 292,000 in December as the unemployment rate remained stable at 5.0%. November’s nonfarm number was revised slightly higher to 252,000, taking the average pace of job growth for the quarter to 284,000. Job growth in December was broad-based with the major category of mining and logging showing the only signs of job declines for the month.

ISM REPORTS ON BUSINESS®

The ISM’s surveys continued to show a stark divergence between the manufacturing and service sectors of the economy in December. The ISM non-manufacturing survey continued to show the service sector was expanding as the business activity, new orders and employment components all rose further into expansion territory. Conversely, the ISM manufacturing survey continued to point toward a contraction in manufacturing activity. The production, new orders, and employment components remained in contraction territory.

EXPANSION WITHIN THE EUROZONE?

Financial information company Markit said its purchasing managers' index — a broad gauge of activity across the manufacturing and services sectors — rose to a four-month high of 54.3 points in December from 54.2 the previous month. That monthly growth, according to Markit, represents the best quarterly performance since the middle of 2011.

THE ECB THINKS RISK REMAINS

The Eurozone economy is at risk from weakening emerging market growth, sagging demand for its exports and increased geopolitical risks, the ECB said in the minutes of a meeting at which it eased policy less than markets expected.

CHINA DATA UNINSPIRING

China's December exports fell 1.4% from a year earlier, while imports slid 7.6%, both much less than economists had expected but still likely leading to the countries weakest annual growth in 25 years. Analysts polled by Reuters had expected dollar-denominated exports to fall 8.0% and predicted imports would fall 11.5%.

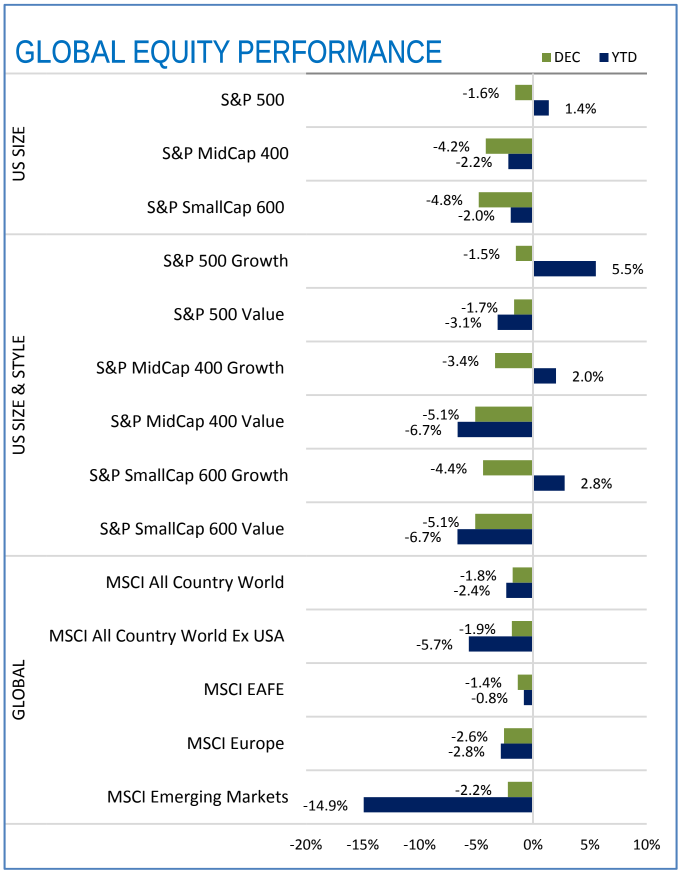
BRAZIL TO THE RESCUE?

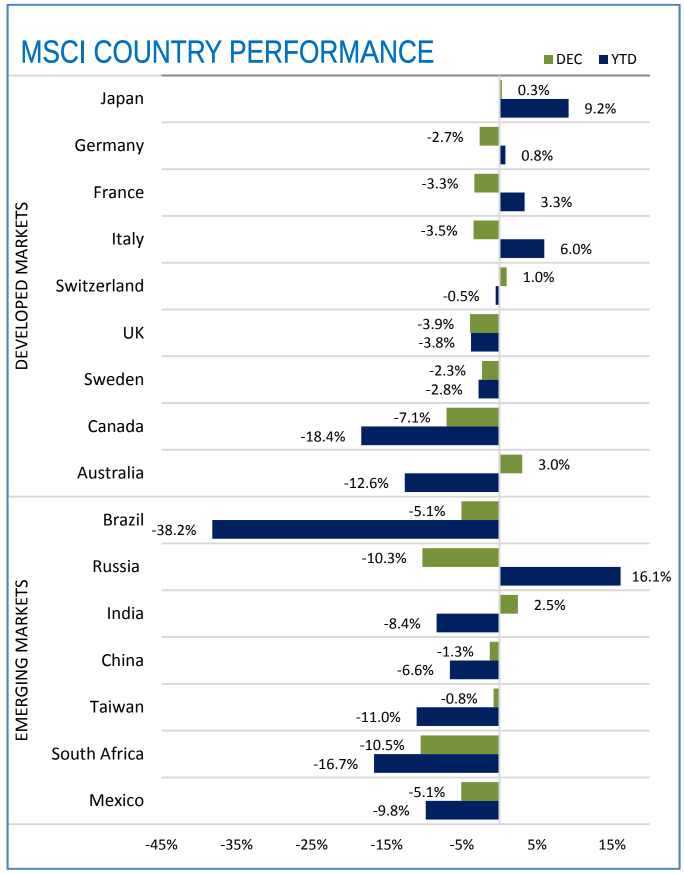
The Brazilian government is struggling with a widening budget gap, a 4% economic contraction and double-digit inflation. However, President Dilma Rousseff cannot rule out a government bailout for the country’s state-controlled oil company, Petrobras. The company is mired in financial troubles amid the deep decline of global oil prices and a sprawling corruption scandal involving several of its former executives.

LARGEST IPO EVER?

There has been recent speculation that Saudi Aramco, the Saudi Arabian state-owned oil company may carry out an IPO. Saudi Aramco is the world’s largest oil company, pumping 9.5 million barrels of crude oil a day – about 1/10 of global demand. Altogether, the company has total reserves of about 265 billion barrels of oil.

GLOBAL EQUITIES: Global Equity Markets Slide to End 2015





U.S. Equities Lower to Close The Year

U.S. equities fell in December as investors worried about the impact of higher interest rates and a continued decline in commodity prices on the global economy. The S&P 500 fell 1.6% in December and closed the year up only 1.4%. This marks the second time in 5 years that the index's return has been entirely from dividends (2011 return was 2.1%). Large cap equities continued to outperform their mid and small cap counterparts, while growth decidedly outperformed value for both the month and the year.

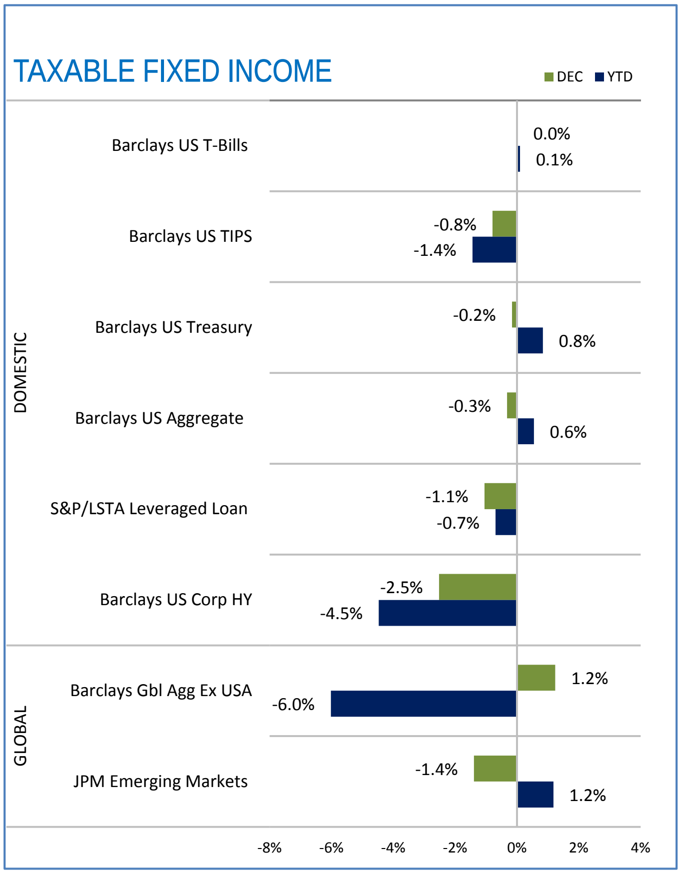
ECB Disappoints

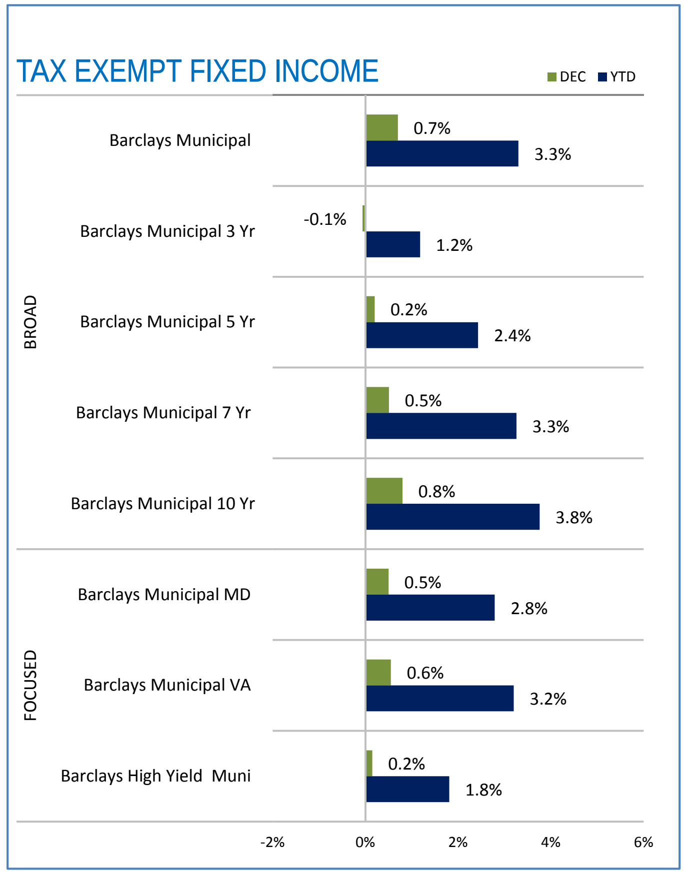
European stocks tumbled early in the month after investors were disappointed by the European Central Bank announcement that it would cut its deposit rate by 10 basis points to -0.3% from -0.2% and extend its asset-buying program by another six months. Investors were hoping for a more aggressive response to combat the Eurozone's muted growth and low inflation. Equities in Germany, France, Italy, and the UK all fell nearly 3% or more.

Emerging Markets Continue to Dissapoint

Emerging markets stocks slid in December as prices for oil and other commodities slumped, dimming the outlook for commodity exporters in the developing world. Oil suffered another sell-off after OPEC opted to maintain current production levels in early December despite a worldwide supply glut.

FIXED INCOME: Fed Begins To Normalize Rates





Liftoff Begins

The Federal Reserve raised the federal funds rate by 25 basis points in December, its first interest rate hike since 2006. Shorter-term Treasury yields increased following the widely anticipated rate increase, although yields on longer-term Treasuries climbed only moderately, thus flattening the Treasury yield curve.

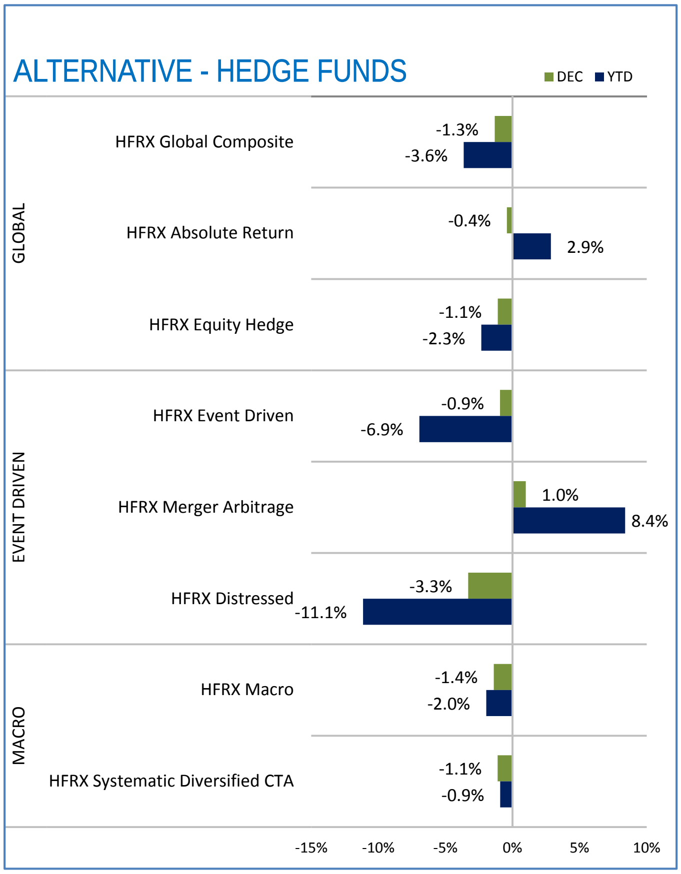
Dispersion In High Yield Markets

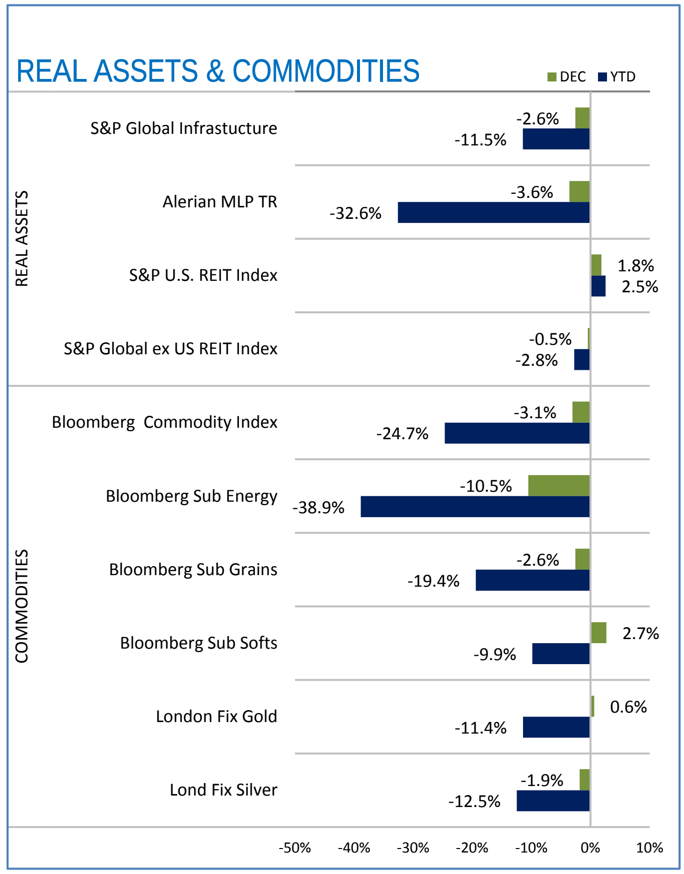
After a weak November, high yield bonds continued to fall on the back of uncertainty heading into the start of a Fed rate hiking cycle and the continued weakness in oil prices. The Barclays U.S. Corporate High Yield Index fell 2.5% in December, and closed the year down 4.5%. Higher rated issues continued to outperform, as lower rated issues faced concerns about liquidity. Defensive sectors of the market had gains for the year, while most of the losses were attributable to the metals, mining, and energy sectors.

Strong Year For Municipals

Solid demand and limited new supply helped municipal bonds outperform most other fixed income sectors for the month as well as for 2015. The Barclays Municipal Index finished the year up 3.3%. Near the end of December, Puerto Rico's governor announced that the U.S. commonwealth would make the payments that are due on January 1 on its general obligation municipal debt but would default on other bonds that have less-stringent legal protections.

ALTERNATIVES: REITs Rally As Rates Hiked





HEDGE FUNDS POST POSITIVE RETURNS

Hedge funds posted mixed performance in December and for the year. Absolute Return and Merger Arbitrage strategies outperformed, while Equity Hedge, Distressed and Macro strategies underperformed. The HFRX Merger Arbitrage Index gained 1% for December, ending 2015 with a gain of 8.4%, its best yearly performance since 2006. Conversely, the HFRX Distressed Index posted a decline of 3.30% for the month from exposure to the energy, consumer and industrial sectors, and finished the year down 11.1%.

REITS RALLY AS RATES HIKED

Despite a year of speculation about the impact of impending interest rate hikes on REITs, the sector closed 2015 with a bang. The S&P U.S. REIT Index was up 1.8% in December and 2.5% for the year. While this may be weak by historical standards, REITs outperformed nearly all U.S. and global equity indices for the year.

OIL'S SLIDE HITS MLPS HARD

The Alerian MLP index fell 3.6% in December, and 32.6% for the year. MLP yield spreads, as measured by the Alerian MLP Index yield relative to the 10-Year U.S. Treasury, ended the year at 6.26%. This compares to a trailing five-year average spread of 4.21%. Over the past 12 months, the MLP sector underperformed the S&P 500 Index by 33.96%, which represents the greatest relative underperformance in the sector's history. Weakness in crude oil prices has been the primary driver of poor investor sentiment, although the correlation between commodity pricing and the sectors performance has been relatively low over longer time periods.