Market Comments

The end of 2015 concluded a roller coaster of a ride for investors, as investors adjusted to an era of slower Gross Domestic Product (GDP) growth. In the U.S. following strong second and third quarters, 3.9% and 2.0% respectively, GDP growth slowed to just 0.7% in the fourth quarter. This swift decline was in contrast to several positive data points in the U.S. economy; steady job growth, improving housing market, and record auto sales, which had supported much of the growth throughout the year, even in the backdrop of precipitous oil declines and a slowing Chinese economy.

In the fourth quarter, oil prices reached levels not seen since early 2000's (see Brent Crude Chart). The decline in prices reflected concerns surrounding Chinese demand and an oversupply from US Shale producers and Saudi Arabia. US oil rig counts declined but oil production remained strong. Saudi Arabia, on the other hand, is trying to defend their market share and still has yet to cut their oil supply. Further fostering investor concerns and pressuring markets was the fact that an additional 600 million barrels per day are expected to hit the open markets once the Iranian sanctions are lifted.

Declining oil prices, combined with the slowing growth of China's economy in 2015, put global markets on a turbulent course from September thru year end. The growth of China's GDP slowed to 6.8% in the fourth quarter, the slowest pace of expansion since 2009, and stoked concerns within the financial markets about the health of the world's second largest economy. The good news for US investors is only 2% of the S&P 500's revenues are derived from China and according to a study by Goldman Sachs, a 1% drop in China's GDP equates to a .06% drop in U.S. GDP. Thus, when the world's second largest economy (China) gets the flu, the U.S. sneeze is just a sneeze.

As word of oil price declines and a slowing Chinese economy captured headlines and the world's attention, the S&P 500 on a total return basis edged out a positive return of 1.4% for 2015 and a surprising 7.0% for the fourth quarter. All ten of S&P 500 sectors made it back into the black (even energy at .2%), after a disappointing third quarter, as early October gains could not be erased by a lackluster December. International markets even showed surprising resiliency with the Shanghai Index bouncing back from down 28.6% in the third quarter to up 15.9% in the fourth quarter. Shanghai markets ended the year up 9.3%, albeit significantly less than the stellar 2014 results of positive 53.1%.

On a global basis, only five out of twelve world indices ended the year with a positive return. Most notably, the Canadian and Brazilian indexes were two that both trailed rather significantly with double-digit losses for the year; both were particularly affected by oil's decline. While economic pundits volley prognosis's on whether we are on the cusp of another global crisis like 1998 or 2008 (which were credit driven), we take solace that emerging markets hold U.S. dollars in reserves reducing the likelihood of a 1998 or 2008 reenactment.

Historical Price of Brent Crude Oil

World Indices