

# Capital Market Update

4<sup>th</sup> Quarter 2015



RETIREMENT PLAN  
ADVISORY GROUP

# Market Review - 4th Quarter 2015

Capital markets rebounded over the fourth quarter, allowing many major domestic market indices to finish positive for the year. U.S. equity was up 6.3 percent for the quarter and 0.5 percent for the year (Russell 3000). Overseas, international markets underperformed their U.S counterparts. International equity posted a positive 4.7 percent return for the quarter, but finished negative for the year, down 0.4 percent (MSCI EAFE). The 10-year Treasury yield moved higher over the quarter, finishing at 2.27 percent, up 21 basis points from last quarter. The increased pressure on U.S. fixed income, produced a negative 0.6 percent for the quarter (Barclays Aggregate Bond Index). U.S. fixed income still managed to finish the year positive, up 0.5 percent.

The fourth quarter marked the Fed's first rate hike since 2006, significant because monetary policy finally turned to one of tightening. The hike was evidence of the Fed's confidence about the status of and prospects for the U.S. economy to move forward with a rate hike. Unemployment, one of the Fed's key economic indicators, dropped to 5 percent over the quarter. This pointed to a healthier U.S. economy, and was now at a level that was half of what it was seven years ago (10 percent unemployment rate, October 2009, BLS). Another notable event over the quarter and year was the strengthening U.S. dollar. This was likely in part due to the anticipation of higher rates and tighter monetary policy in the U.S. While a strengthening dollar has some benefits, it did not benefit U.S.-based international investing. Depreciating foreign currencies contributed to the negative returns U.S.-based investors experienced during the year.

As we head into 2016, many of these same themes will continue to manifest. How the capital markets respond to divergent monetary policies will be at the forefront, as investors closely watch the pace of U.S. tightening and foreign central banks continue to loosen. The uncertain degree of China's slowdown and the effect not only on emerging markets, but the global capital markets, will also be a key theme. Commodities, for example, continue to remain under pressure as a result of decreased Chinese demand, and could likely affect developed markets even more if lower prices continue. The U.S. is certainly a bright spot, but the coming U.S. presidential election, for example, promises to provide more uncertainty into what has already been a long recovery for the U.S. capital markets. As we witnessed over the latter half of 2015, more "normal" market volatility may be here to stay as we proceed through the new year.

## U.S. Equity

U.S. equity posted a positive 6.3 percent return for the quarter (Russell 3000 Index). All U.S. equity styles posted positive returns for the quarter. Large cap growth was the best performing U.S. equity style, posting a positive 7.3 percent return (Russell 1000 Growth). Small cap value was the worst performing style, posting a positive 2.9 percent return (Russell 2000 Value).

## International Equity

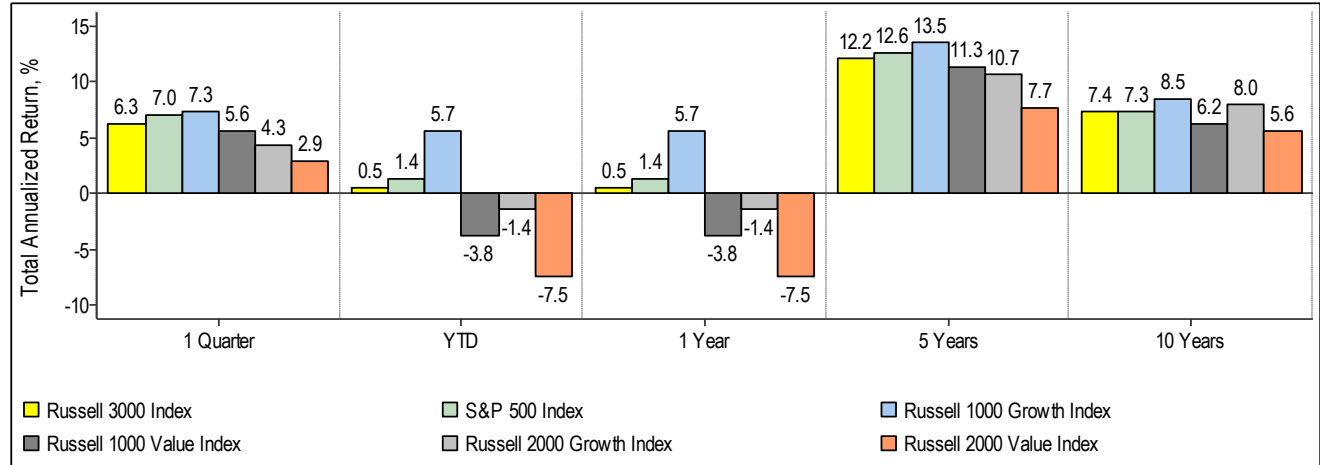
Developed international equity underperformed U.S. equity over the quarter, returning a positive 4.7 percent (MSCI EAFE). All international equity styles posted positive returns for the quarter. The best performing region for the quarter was Japan which returned a positive 9.4 percent (MSCI Japan). The United Kingdom and Emerging Markets were the worst performing regions, both returning a positive 0.7 percent (MSCI United Kingdom and MSCI EM) for the quarter.

## Fixed Income

The broad U.S. fixed income market posted a small loss for the quarter, returning a negative 0.6 percent (Barclays U.S. Aggregate). Municipal was the best performing sector, returning a positive 1.5 percent (BC Muni). High Yield corporate was the worst performing sector, returning a negative 2.1 percent (BC High Yield Corporate). Global fixed income underperformed the broad U.S. fixed income market, returning a negative 1.0 percent (BofA ML Global Broad Market) for the quarter.

### U.S. Equity Index Performance

- All U.S. equity styles were positive for the quarter
- Large cap outperformed small cap
  - Large growth was the best performing style, up 7.3%
  - Small cap value was the worst performing style, up 2.9%



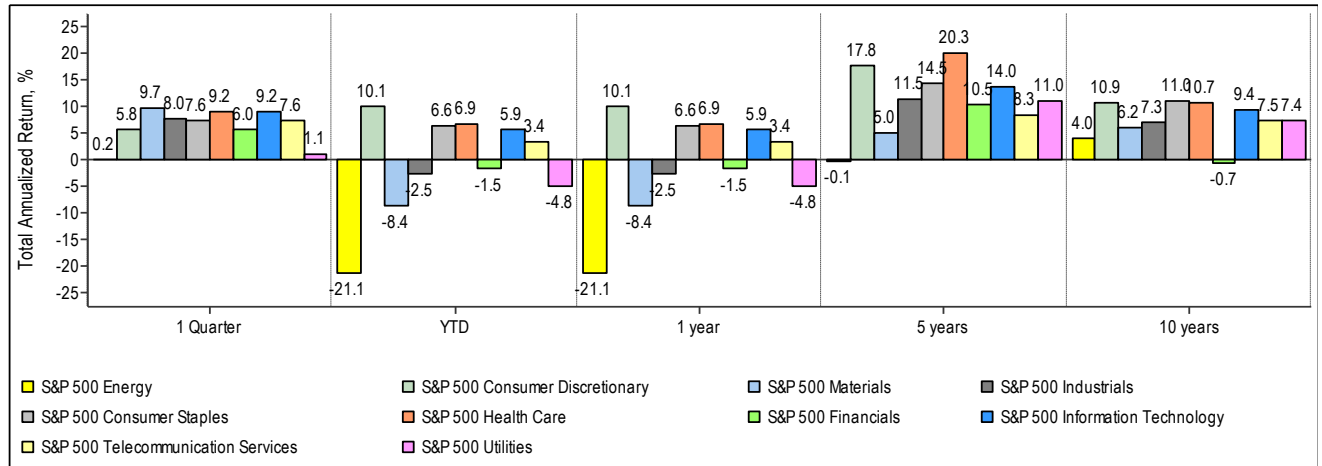
- Best performing sectors for the quarter:

- Materials, up 9.7%
- Health Care and Information Technology, up 9.2%

- Worst performing sectors for the quarter:

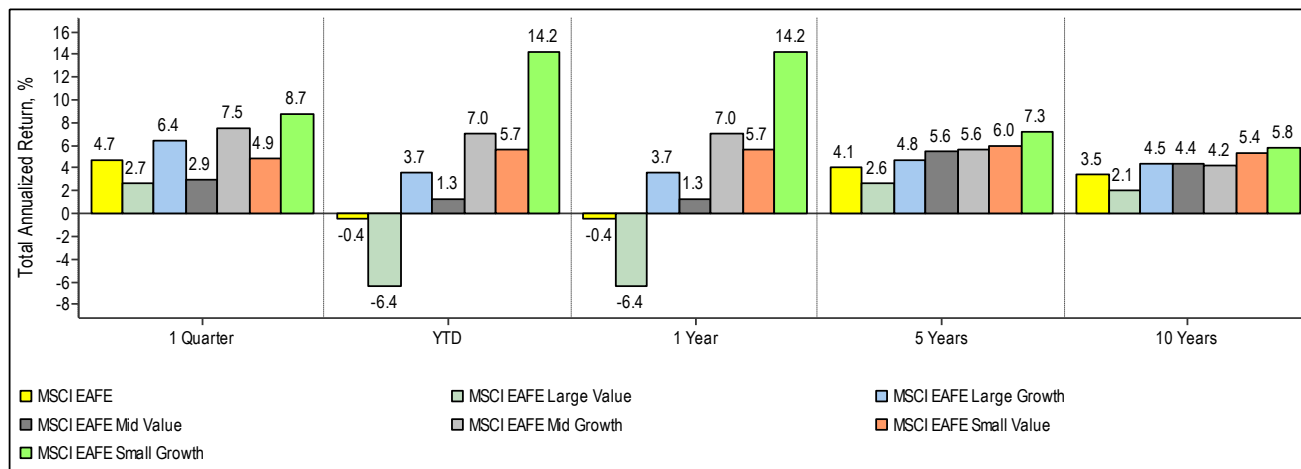
- Energy, up 0.2%
- Utilities, up 1.1%

### U.S. Equity Sector Performance



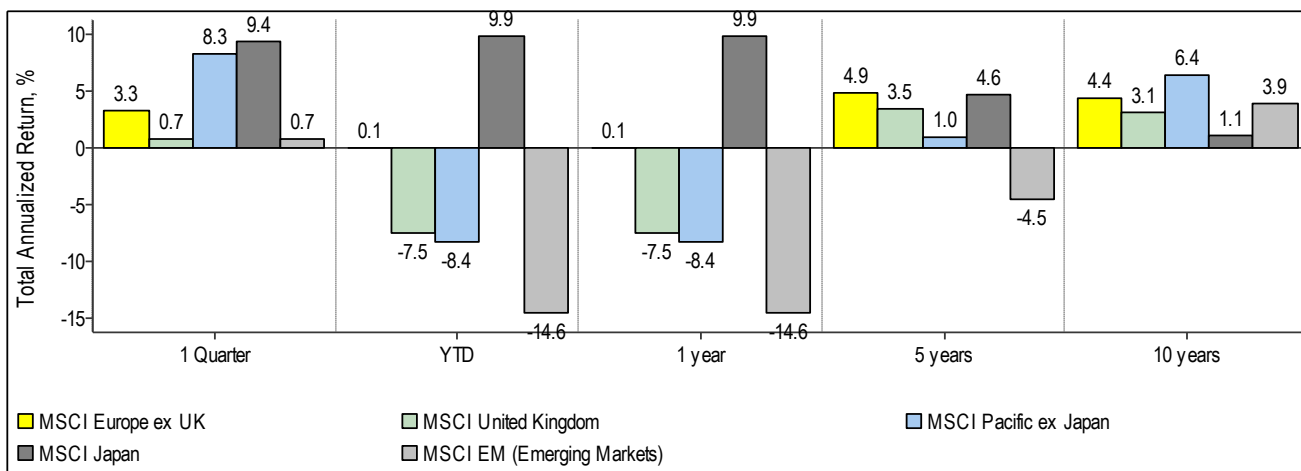
- All international equity styles posted positive returns for the quarter
- The best performing international equity style for the quarter:
  - Small growth, up 8.7%
- The worst performing style for the quarter:
  - Large value, up 2.7%

### International Index Performance by Style and Capitalization



- Best performing region for the quarter:
  - Japan, up 9.4%
- Worst performing region for the quarter:
  - United Kingdom and Emerging Markets, up 0.7%

### International Index Performance by Region

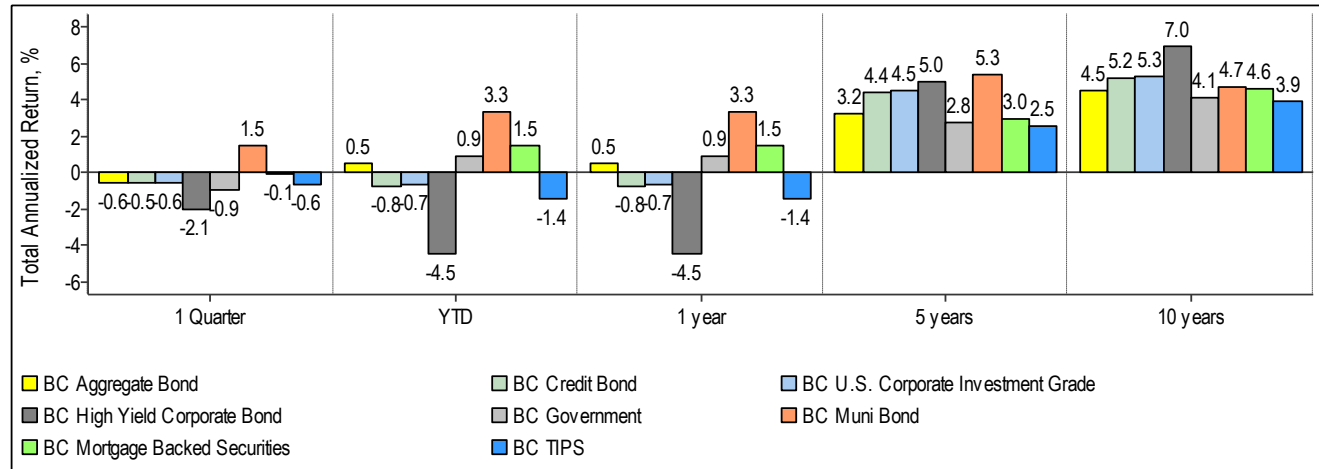


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## Fixed Income Overview

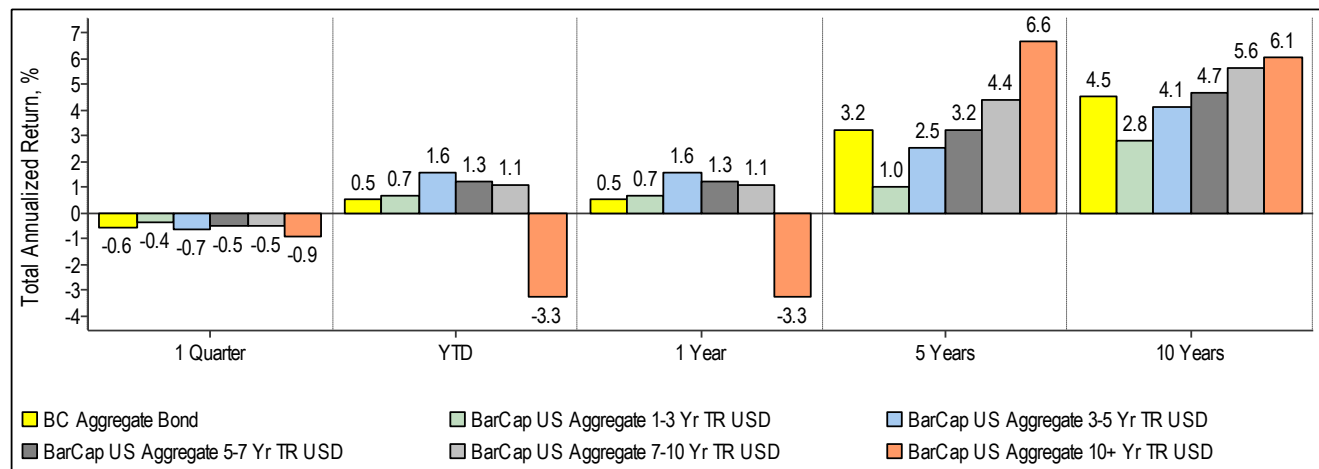
- Fixed income performance was negative for all sectors except Municipal bonds
- The best performing sector for the quarter:
  - Municipal bonds, up 1.5%
- The worst performing sector for the quarter:
  - High Yield corporate, down 2.1%

### Fixed Income Sector Performance



### Fixed Income Performance by Maturity

- Performance was negative across all maturities as rates rose on both the long and short ends of the yield curve



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## Annualized Style Box Performance

1 Quarter (%)			
Value	Blend	Growth	
6.76	7.73	8.64	Large
3.12	3.62	4.12	Mid
2.88	3.59	4.32	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
4.75	5.50	-0.57	0.03

Year to Date (%)			
Value	Blend	Growth	
-3.41	2.36	8.18	Large
-4.78	-2.44	-0.20	Mid
-7.47	-4.41	-1.38	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
-0.39	-0.87	0.55	0.05

1 Year (%)			
Value	Blend	Growth	
-3.41	2.36	8.18	Large
-4.78	-2.44	-0.20	Mid
-7.47	-4.41	-1.38	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
-0.39	-0.87	0.55	0.05

3 Year (Annualized %)			
Value	Blend	Growth	
12.96	15.35	17.69	Large
13.40	14.18	14.88	Mid
9.06	11.65	14.28	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
5.46	9.63	1.44	0.05

5 Year (Annualized %)			
Value	Blend	Growth	
11.27	12.87	14.43	Large
11.25	11.44	11.54	Mid
7.67	9.19	10.67	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
4.07	7.59	3.25	0.07

10 Year (Annualized %)			
Value	Blend	Growth	
5.57	7.18	8.77	Large
7.61	8.00	8.16	Mid
5.57	6.80	7.95	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
3.50	4.98	4.51	1.24

Performance as of December 31, 2015. Data is for informational purposes only and cannot be guaranteed. Past performance does not guarantee future results. Russell Top 200, Top 200 Growth, and Top 200 Value used for Large Blend, Large Growth and Large Value categories. Russell Mid-cap, Mid-cap Growth and Mid-Cap Value used for Mid Blend, Mid Value and Mid Growth categories. Russell 2000, 2000 Growth and 2000 Value used for Small Blend, Small Growth and Small Value categories. MSCI EAFE used for International Equity category. MSCI Global used for World Equity category.

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## Kaleidoscope: Changing Leadership

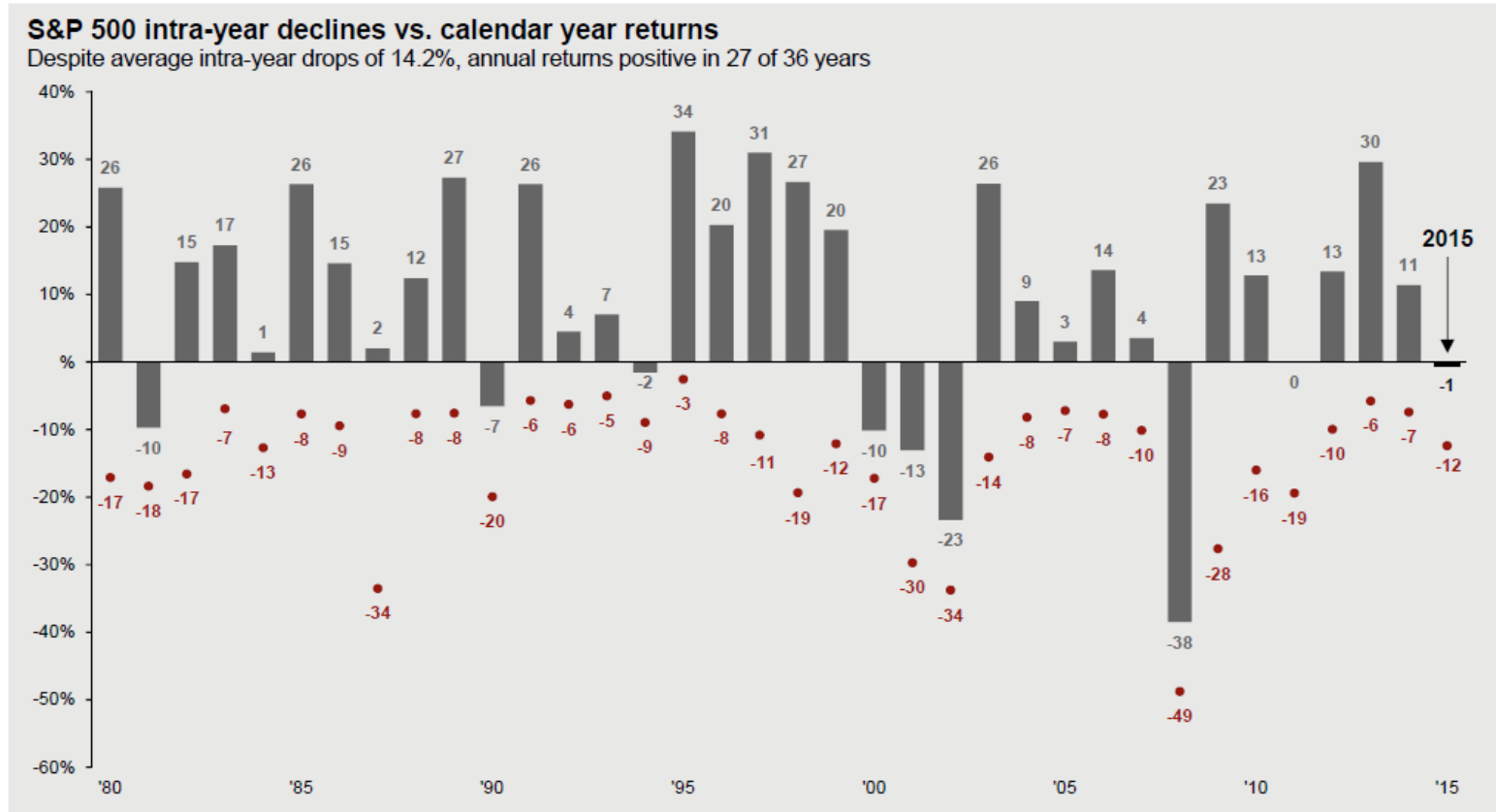
The following chart exhibits the volatility of asset class returns from year to year by ranking certain key indices in order of performance. Also included in the chart is a balanced index, which represents a mix of U.S. equity, international equity and fixed income indices. The chart graphically displays the volatility of asset class returns from year to year, highlighting the importance of diversification. Top-performing asset classes in a given year do not tend to repeat their stellar performance in subsequent years. Accordingly, the worst performing asset classes in a given year often tend to outperform in future years. Said differently, past performance is not a good indicator of future performance. Diversification, demonstrated by the balanced index, helps reduce return volatility and the uncertainty that accompanies trying to pick the best asset class (or avoid the worst) in any given year.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
14.02 MSCI EAFE USD	26.86 MSCI EAFE USD	11.81 Russell 1000 Growth	5.24 BarCap US Agg	37.21 Russell 1000 Growth	29.09 Russell 2000 Growth	7.84 BarCap US Agg	18.05 Russell 2000 Value	43.30 Russell 2000 Growth	13.45 Russell 1000 Value	5.67 Russell 1000 Growth
7.05 Russell 1000 Value	23.48 Russell 2000 Value	11.63 MSCI EAFE USD	-22.48 Balanced Index*	34.47 Russell 2000 Growth	24.50 Russell 2000 Value	3.04 Balanced Index*	17.90 MSCI EAFE USD	34.52 Russell 2000 Value	13.05 Russell 1000 Growth	0.59 Balanced Index*
5.45 Balanced Index*	22.25 Russell 1000 Value	7.05 Russell 2000 Growth	-28.92 Russell 2000 Value	32.46 MSCI EAFE USD	16.71 Russell 1000 Growth	2.64 Russell 1000 Growth	17.51 Russell 1000 Value	33.48 Russell 1000 Growth	8.15 Balanced Index*	0.55 BarCap US Agg
5.26 Russell 1000 Growth	13.35 Russell 2000 Growth	6.97 BarCap US Agg	-36.85 Russell 1000 Value	20.58 Russell 2000 Value	15.51 Russell 1000 Value	0.39 Russell 1000 Value	15.26 Russell 1000 Growth	32.53 Russell 1000 Value	5.97 BarCap US Agg	-0.39 MSCI EAFE USD
4.71 Russell 2000 Value	12.17 Balanced Index*	6.61 Balanced Index*	-38.44 Russell 1000 Growth	20.05 Balanced Index*	12.47 Balanced Index*	-2.91 Russell 2000 Growth	14.59 Russell 2000 Growth	23.29 MSCI EAFE USD	5.60 Russell 2000 Growth	-1.38 Russell 2000 Growth
4.15 Russell 2000 Growth	9.07 Russell 1000 Growth	-0.17 Russell 1000 Value	-38.54 Russell 2000 Growth	19.69 Russell 1000 Value	8.21 MSCI EAFE USD	-5.50 Russell 2000 Value	11.79 Balanced Index*	17.42 Balanced Index*	4.22 Russell 2000 Value	-3.83 Russell 1000 Value
2.43 BarCap US Agg	4.33 BarCap US Agg	-9.78 Russell 2000 Value	-43.06 MSCI EAFE USD	5.93 BarCap US Agg	6.54 BarCap US Agg	-11.73 MSCI EAFE USD	4.22 BarCap US Agg	-2.02 BarCap US Agg	-4.48 MSCI EAFE USD	-7.47 Russell 2000 Value

\*Balanced Index comprised of 50% Russell 3000, 10% MSCI EAFE and 40% Barclays Capital U.S. Aggregate, rebalanced quarterly.

## Drops and Finishes

The chart below provides some perspective on stock market drops over a calendar year and how the year actually finished. The largest intra-year declines by the S&P 500 price index are reflected below, reflective of the volatility of the U.S. stock market. Over the last 36 years, despite average intra-year drops of 14.2%, the stock market has finished positive 75 percent of the time (27 of 36 years).



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.  
 Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2015.



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## Disclosures

Performance of indexes reflects the unmanaged result for the market segment the selected stocks represent. Indexes are unmanaged and not available for direct investment.

Citigroup Corporate Bond is an index which serves as a benchmark for corporate bond performance. You cannot invest directly in an index.

Citigroup Mortgage Master is an index which serves as a benchmark for U.S. mortgage-backed securities performance.

Citigroup WGBI Index is an index which serves as a benchmark for global bond performance, including 22 different government bond markets.

Credit Suisse High Yield Index is an unmanaged, trader priced index constructed to mirror the characteristics of the high yield bond market.

BC (Barclays Capital) U.S. Aggregate Bond Index represents securities that are U. S., domestic, taxable, and dollar denominated. The index covers the U. S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

BC Credit Bond Index includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

BC U.S. Corporate Investment Grade represents investment grade corporate securities that are U. S., domestic, taxable, and dollar denominated.

BC High Yield Corporate Bond represents below investment grade corporate securities that are U. S., domestic, taxable, and dollar denominated.

BC TIPS Index includes publicly issued U.S. government treasury inflation protected securities that meet the specified maturity, liquidity and other requirements.

BC Mortgage Backed Securities covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARMs) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

BC Muni Bond covers the USD-denominated long term tax exempt bond market with four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

BC Government Index includes publicly issued U.S. government securities that meet the specified maturity, liquidity and other requirements.

BarCap U.S. Aggregate 1-3 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 1 to 3 years.

BarCap U.S. Aggregate 3-5 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 3 to 5 years.

BarCap U.S. Aggregate 5-7 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 5-7 years.

BarCap U.S. Aggregate 7-10 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 7 to 10 years.

BarCap U.S. Aggregate 10+ Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over 10 years.

DJW 5000 (Full Cap) Index measures the performance of all U.S. common equity securities, and serves as an index of all stock trades in the United States.

MSCI FI Emerging Markets is a rules-based index which serves as a benchmark for emerging country fixed income performance.

MSCI FI EAFE International is a rules-based index which serves as a benchmark for developed international country fixed income performance.

MSCI EAFE Index is listed for foreign stock funds (EAFE refers to Europe, Australia, and Far East). Widely accepted as a benchmark for international stock performance, it is an aggregate of 21 individual country indexes.

MSCI EAFE Large Value represents the large cap value stocks within the MSCI EAFE Index.

MSCI EAFE Large Growth represents the large cap growth stocks within the MSCI EAFE Index.

MSCI EAFE Mid Value represents the mid cap value stocks within the MSCI EAFE Index.

MSCI EAFE Mid Growth represents the mid cap growth stocks within the MSCI EAFE Index.

MSCI EAFE Small Value represents the small cap value stocks within the MSCI EAFE Index.

MSCI EAFE Small Growth represents the small cap growth stocks within the MSCI EAFE Index.

MSCI EM (Emerging Markets) Index serves as a benchmark for each emerging country. The average size of these companies is (U.S.) \$400 million, as compared with \$300 billion for those companies in the World index.

MSCI World Index is a rules-based index that serves as a benchmark for the developed global equity markets.

MSCI Europe ex UK Index is a rules-based index that serves as a benchmark for the Europe's equity markets, excluding the United Kingdom.

MSCI Pacific ex Japan Index is a rules-based index that serves as a benchmark for Asia Pacific's equity markets, excluding Japan.

MSCI United Kingdom Index is a rules-based index that serves as a benchmark for the United Kingdom's equity markets.

MSCI Japan is a rules-based index that serves as a benchmark for Japan's equity markets.

Nareit All Reit Index includes all tax-qualified REITs with common shares that trade on the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market List.

3-Month T-bills (90 Day T-Bill Index) are government-backed short-term investments considered to be risk-free and as good as cash because the maturity is only three months.

Russell 1000 Growth Index is a market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index is a market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

Russell Top 200 Growth Index is a market-capitalization weighted index of those firms in the Russell Top 200 with higher price-to-book ratios and higher forecasted growth values.

Russell Top 200 Value Index is a market-capitalization weighted index of those firms in the Russell Top 200 with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratio and higher forecasted growth values.

Russell 2000 Index consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization.

Russell 2000 Value Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values.

Russell MidCap Growth Index is a market-weighted total return index that measures the performance of companies within the Russell MidCap Index having higher price-to-book ratios and higher forecasted growth values.

Russell Mid-Cap Index includes firms 201 through 1000, based on market capitalization, from the Russell 3000 Index.

Russell MidCap Value Index is a market-weighted total return index that measures the performance of companies within the Russell MidCap index having lower price-to-book ratios and lower forecasted growth values.

Russell Top 200 Index consists of the 200 largest securities in the Russell 3000 Index.

Russell 3000 Index is a market-capitalization weighted index, consisting of 3,000 U.S. common equity securities, reflective of the broad U.S. equity market.

Salomo n 1-10 Yr. Governments is an index which serves as a benchmark for U.S. Government bonds with maturities ranging from 1 to 10 years.

S&P 500 Index measures the performance of the largest 500 U.S. common equity securities, and serves as an index of large cap stocks traded in the United States.

S&P 500 Energy Index measures the performance of the energy sector in the S&P 500 Index.

S&P 500 Industrials measures the performance of the industrial sector in the S&P 500 Index.

S&P 500 Financials measures the performance of the financials sector in the S&P 500 Index.

S&P 500 Utilities measures the performance of the utilities sector in the S&P 500 Index.

S&P 500 Consumer Discretionary Index measures the performance of the consumer discretionary sector in the S&P 500 Index.

S&P 500 Consumer Staples Index measures the performance of the consumer staples sector in the S&P 500 Index.

S&P 500 Information Technology measures the performance of the information technology sector in the S&P 500 Index.

S&P 500 Materials measures the performance of the materials sector in the S&P 500 Index.

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