Quarterly Outlook

JANUARY 2016

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TANDEM
WEALTH ADVISORS

Fourth Quarter 2015

The US growth outlook continued on a modest trajectory, unlike the rest of the world, which faced greater uncertainty in monetary policy and economic outlook. Driven by labor markets and lower oil prices, US growth has remained steady over the last several years but with little acceleration. The S&P 500 Index started the quarter at 1920 and ended at 2044. The price return on the S&P 500 from October through December was 6.45%. Stocks found some momentum in October and November following the first 10% correction in over four years with declines in August and September.

The full-year 2015 price return on the S&P 500 was -0.73% with a 1.4% total return (including dividends). Falling oil prices, economic concerns in China, and the divergent global monetary policy fueled market volatility and left investors with little confidence. However, US GDP had fallen from 3.9 % in the second quarter to 2% in the third quarter making growth in the first half of 2015 better than the first half of 2014. In December the Federal Reserve began interest rate normalization by increasing the target for the federal funds rate by 0.25%. Rate normalization tends to tighten dollar liquidity and put pressure on illiquid asset classes.

In 2015, oil prices fell more than 30%. On the downside, industrial production faltered, consumer spending remained anemic and corporate growth rates revealed a lack of organic growth. However, there were plenty of upsides: inflation remained low, the housing market gained strength, wage gains accelerated and the unemployment rate continued to decline.

Going Forward: Tandem's Outlook

The Fed's tightening has long been discounted by the market, which should have the ability to digest a slow, gradual tightening cycle. The rate normalization's impact on currency markets is likely to continue, especially if central banks in Europe and Japan continue to loosen monetary policy. This divergence may continue to push the dollar higher.

In 2016, Tandem expects growth challenges in China and commodity-exporting economies. Europe isn't out of the woods yet – we anticipate flat growth. In the US, GDP growth should come in under 3%. Resolution of geopolitical turmoil affecting global alliances seems unlikely. Wars, refugee crises and imbalances will continue to leave investors feeling uncertain. While there is no escaping volatility, Tandem believes there are steps investors can take to insulate themselves from the market fallout. In our opinion, the key to withstanding serious market fluctuations is proper diversification and a strict investment discipline, which we continue to implement in client portfolios.

Tandem continually monitors markets and investor portfolios, periodically realigning and rebalancing to control risk to the greatest extent possible. As always and especially in these unpredictable times, a long-term perspective is essential. Best wishes for a prosperous 2016.