INVESTMENT UPDATE NEWSLETTER

ALLEN TRUST COMPANY

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2015: The Empty Punch Bowl

2015 was a year most investors are probably already well on their way to forgetting. Worldwide, not much did well except for a handful of US mega-cap go-go stocks whose prices detached, if not from reality, at least from sobriety, and partied on into the late hours after everyone else had retired.

Among major asset class benchmarks, top honors went to the S&P 500 for dropping only a few points and yet paying enough in dividends to get back to positive territory with a 1.4% total return. Foreign stocks continued stumbling, with the MSCI World Ex-USA off -3.1%, and emerging markets stocks off -14.9%. The chart at upper right illustrates the divide between different market capitalizations and investing styles in the US stock market. Here's what was good for ATC's portfolios: large cap stocks beat small and mid-caps, and on the whole higher quality companies did better than lower quality ones. Here's what was bad: value stocks significantly trailed growth stocks (by -9.5% among large companies), and as seen in the numbers above, global diversification brought more cost than benefit.

Bond markets were at best "meh" in the US (the Barclays Aggregate returned half a percent), and "meh" was as good as it got anywhere (the Global Aggregate Ex-USA clocked a -6.0% loss). Good for us: our heavy emphasis on municipal bonds meant solid participation in the best-performing sector (+3.3%), and we avoided the slide in junk bonds (-4.5%). Bad for us: a couple of our mutual funds (asset allocation strategy and global bonds) were shellacked by dollar strength and foreign bond weakness.

US Stock Performance by Size and Style

1-Year Returns

	Value	Core	Growth
Large Cap	-3.83	0.92	5.67
Mid Cap	-4.78	-2.44	-0.20
Small Cap	-7.47	-4.41	-1.38

Source: Morningstar as of 12/31/15.

Chart Source: Eaton Vance

The bloodiest corner of the markets was, again, commodities. The Bloomberg Commodity Index saw nearly a quarter of its value disintegrate (-24.7%), and many commodities now price at levels not seen since the Clinton administration. Good for us: with the exception of precious metals, which outperformed the other commodity sub-sectors, we don't target pure commodity exposures. Bad for us: we own stock in companies exposed to commodity prices (e.g. energy and fertilizer companies); business for them has been suffering.

Altogether, 2015 didn't offer much to celebrate, which made it all the more peculiar a backdrop to a main event that was long awaited, much debated…and yet in the end, just deflated: the first initial Fed rate hike in over a decade. If anything, December's 0.25% rate boost rivaled the Floyd Mayweather-Manny Pacquiao title bout for anticlimax.

William McChesney Martin, Fed chairman under five presidents in the mid-20th century, famously said that the Fed's job is to take away the punch bowl just as the party gets started. Problem is, the real chandelier-swinging happened back in 2013's stock and junk bond rallies, and by last year, not much remained in the punch bowl but half-melted ice and a few stray chads of wet confetti.