Investment Watch

4th Quarter, 2015

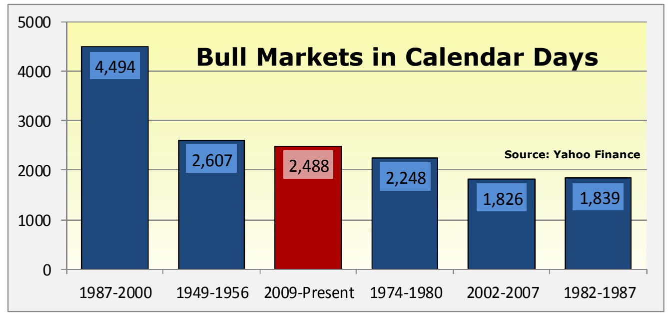
Losing Steam?

The current bull market is the third longest in history and may soon take over second place. But is this bull loosing steam or is there still fire in that old boiler? At the end of the Great Recession, the US stock market lost half its value by March 9th 2009. From that point forward the current bull market has clawed its way back without a single derailment. 2,488 days and still counting without falling into bear territory, which is generally defined as a downturn of 20% or more.

This current stock market streak nearly jumped the rails back in 2011 when the S&P 500 shed 18% of its value. This past August, a global financial scare drove investors to pull the emergency cord and the stock market plunged over 11% in just five business days! This abrupt downturn following China's "Black Monday" led many pundits to predict the ***end of the line*** for this tired, old bull. But no sooner had they predicted his demise, that this resilient bull pulled back on the throttle and lurched forward to recoup most of those losses.

Even though the stock market has avoided a derailment, it's been a dismal year for investors and the resurgence of volatility has frayed their nerves. The stock market, with fits and jerks, leaving the station ended the year roughly where it started. Bond investors didn't fare any better. Bonds barely broke even due to low, but slightly rising interest rates. Investors feel like they are at the tail end riding in the caboose.

Is this bull losing steam? Many experts believe the US stock market is overpriced, and coupled with mediocre future earnings forecasts, they don't see a bright future. They point to the slow growth in the Gross Domestic Product (GDP) compared to prior expansions averaging a subpar increase of only 2.2% per year, much less than the 3%+ of prior recoveries. In fact, 2015 will be the 10th straight year that the GDP has failed to reach 3%. These experts are also concerned with the China slowdown and possible global deflation



which is being signaled by negative interest rates in Europe. Even the Wall Street Journal in their December 31st issue concurs that global economic baggage will hold down growth, *"Against this backdrop, investors should be relieved if the U.S. bull market survives another year."*

Other pundits feel that the stock market is fairly priced, especially when considering the historically low interest rates. They point to our improving economy, recovering housing market, better employment opportunities, depressed energy prices, and low inflation as signs of a longer lasting recovery. They say the US economy is on the right track. The American consumer, representing 70% of our GDP, is in good shape with record high household wealth and more disposable income due to low energy prices. If US shoppers loosen their purse strings, could this old steam engine gain some traction and pull the economy forward?

The Federal Reserve signaled their belief that the economy is on a solid enough footing to raise interest rates for the first time in over 10 years. In her press conference, Chairperson Janet Yellen explained the Fed's action, *"With the economy performing well, and expected to continue to do so, the committee judged that a modest increase in the federal funds rate target is now appropriate...I think it's a myth that expansions die of old age."* 2016 may be another trying year for this tired, old bull market, but the Fed is ready to stoke the firebox with their easy money polices if the economy gets sidetracked.

December 31, 2015

ĒkonBenefits
YOUR TRUSTED PARTNER
4940 Washington Blvd.
St. Louis, MO 63108