GAMBLE JONES
CELEBRATING 60 YEARS

January 2016

Charles Dickens once stated, “I know enough of the world now to have almost lost the capacity of being much surprised by anything.” Like Charles Dickens, the stock market seemed to have been unfazed by the Fed’s December 16th announcement to raise rates for the first time since June 2006.

Despite the Fed’s decision to increase rates, several issues remain that some market participants had felt could defer the increase. These include the drop in commodity prices and associated low inflation, a strong dollar, and a weaker Chinese economy. Nonetheless, the Fed’s ultimate decision to increase rates was driven by its overall favorable economic outlook and the fact that policy changes typically have a relatively long lag time in affecting future economic outcomes. If the economy were to expand at a sharp enough pace to cultivate greater than desired inflation, the Fed would be forced to wait for the effects of its policy tightening to take effect to combat the inflationary threat.

While the Fed may feel that the energy price declines are transitory, we continue to witness competing parties acting in their own self-interest within OPEC. Although OPEC met in December to discuss the global supply/demand imbalance, the cartel was unable to resolve arguments over who should be responsible for output cuts. The meeting ultimately ended in acrimony with no agreement to cut production. Moreover, the original production ceiling of 30 million barrels a day was unofficially abandoned. However, OPEC only makes up about one-third of global production, so even if it did reach an agreement, the actions of non-OPEC producers would remain important as well.

The stock market was abnormally volatile in 2015, partly due to energy but due to other reasons as well. One of those reasons was divergent central bank policies. Specifically, the U.S. is now implementing a less accommodative monetary policy while other central banks are not. The volatility also stemmed from concerns over China’s growth, the future of Greece and whether it would stay in the Eurozone, and, of course, when the Fed would raise rates. Although many of our clients undoubtedly felt this volatility, especially in August and September, stock investors who were patient enjoyed the strong market returns of October. Despite all the volatility, the stock market ultimately finished flat and the bond market finished higher.

The earnings per share (EPS) of the S&P 500 were down in the second quarter, down in the third and forecast to be down in the fourth. Additionally, given the U.S. GDP growth during the first three quarters, it is likely that when the fourth quarter data is published early this year, the full year will come in below the initial 3% forecast. Fortunately, 2016 looks more positive as the GDP forecast is projected to be higher than we will likely see in 2015, and the S&P EPS growth is forecast to be over 8%.

From all of us at Gamble Jones, we wish you a Happy New Year.

Sincerely,

Alison J. Gamble, President

WWW.GAMBLEJONES.COM
301 EAST COLORADO BOULEVARD ▪ SUITE 802 ▪ PASADENA, CALIFORNIA 91101 ▪ TEL (626) 795-7583 ▪ FAX (626) 795-7689