

## GDP (lagging indicator)



Q3, 2015 (Third Estimate)

Expands by a rate of 2.0%

## EXISTING HOME SALES



Thru November 2015

Down 10.5%: due to an apparent rise in closing timeframes.

## UNEMPLOYMENT RATE



Thru November 2015

Declined to 5.0% (seasonally adjusted).

## CONSUMER PRICE INDEX



November 2015

Declined 0.0% (seasonally adjusted).



## In This Issue

Economic News

Fed Funds Rate Increase

Various Impacts of Interest Rates

## Economic News

The US economy capped off a year many might characterize as stagnant in Q4 2015. The national unemployment rate entered Q4 at 5%, and it would remain there through the end of the year. October saw an increase of 307,000 in nonfarm payroll employment, while November and December saw increases of 252,000 and 292,000, respectively, in the same category. In all, national unemployment dropped from 5.6% to 5% over the course of 2015, as payroll employment growth totaled 2.7 million, about 13% less than the 3.1 million increase in payroll employment over 2014.

Positive Q4 results were not enough to salvage a tumultuous 2015 for the stock markets. The Dow Jones decreased 2.23% in 2015 despite a 7% increase in Q4. The S&P 500 fell 0.7% in 2015 despite a Q4 increase of 6.5%. The Russell 2000 fell 6.1% in 2015 despite a Q4 increase of 3.2%. The NYSE Composite fell 6.3% in 2015 despite a Q4 increase of 3.3%. The NASDAQ had an anomalous year relative to the rest of the group, as it increased 8.3% in Q4 and also enjoyed an increase of 5.2% over the course of 2015. Q4 2015 also bore witness to a highly anticipated increase in the Federal Funds (effective) rate. The Federal Funds rate ended 2015 at 0.2% after starting Q4 at 0.13%, and starting 2015 at 0.06%. This represents a 54% increase in Q4 alone, and a 233% increase over the course of the year.

The average 30-year fixed rate mortgage also increased in Q4 2015, as it began the quarter at 3.85% and ended the quarter at 4.01%, representing a 4.2% increase. The average 30-year fixed rate mortgage at the start of the year was 3.73%, making the total increase on the year 7.5%.

Index	4th Qtr	1 Year	5 Year	10 Year
Barclays U.S. Aggregate Index	-0.57%	0.55%	3.25%	4.51%
MSCI AC World Ex US Net Total Return	3.24%	-5.66%	1.06%	2.92%
Russell 2000 Total Return	3.59%	-4.41%	9.19%	6.80%
S&P 500 Composite Total Return	7.04%	1.38%	12.57%	7.31%

## Fed Funds Rate Increase

On December 16th 2015, the Federal Reserve approved a quarter point increase in the Federal Funds Rate. This was an historic move by the Fed after several years of some

(continued)

# “An investor without investment objectives is like a traveler without a destination.”

Ralph Seger

of the most accommodative monetary policy the US has ever experienced. Compelled by the financial crisis at the time, the FOMC reduced the Federal Funds rate to zero on December 16, 2008 and held it at zero ever since. “Given the economic outlook, and recognizing the time it takes for policy actions to affect future economic conditions, the committee decided to raise the target range for the federal funds rate to ¼ to ½ percent,” the FOMC’s post-meeting statement said. “The stance of monetary policy remains accommodative after this increase, thereby supporting further improvements in labor market conditions and a return to 2 percent inflation.”

While low rates have helped spur growth in the stock market and allowed companies to borrow at reduced costs, low interest rates have also come with some side effects. Aside from hurting returns of savers, some companies with lower credit quality, especially in the energy sector, have borrowed in record numbers to take advantage of low rates. With commodity prices collapsing and high debt balances, there have been increasing worries about the financial stability of some of these debt laden companies, raising fears within the junk bond market leading to the failure of at least three junk bond funds.

## Various Impacts of Interest Rates

In Q4, Federal Reserve Chairman Janet Yellen announced an increase in short term interest rates, the first such move since 2006. While Yellen’s confirmation did not come as a great surprise, the effects will vary across sectors. Banks and insurance companies are likely to experience an uptick in “net interest margin,” or the spread between investment related revenue and what they pay to customers in the form of interest. Banks with commercial loans, generally issued with floating rates, are in line for a short term windfall.

While banks and insurance companies are well positioned, the overall stock market feels a headwind. For the same reasons that lenders see the benefits of higher interest, companies who loan money will see profit margins pinched as the weighted average cost of capital for projects increases. Dividend stocks, historically considered more risky than their fixed income counterparts, will see their interest premium reduced compared to a credit risk-less Treasury note. REITs, with generally higher levels of leverage will also see reduced margins. As the economy continues to move from strength to strength, it will be important to understand which industries are most affected by this shift in the wind.

---

*The Barclays US Aggregate Bond Index is a market capitalization-weighted index of investment-grade, fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year. The MSCI All Country World Exclude US Net Total Return is a commonly used measure of common stock total return performance of 22 of 23 Developed Markets countries excluding the US. The Russell 2000 Total Return Index is a commonly used measure of small capitalization stocks, The S&P 500 Total Return is a commonly used measure of common stock performance of 500 leading companies in leading industries of the U.S. economy. All referenced indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results. The information and opinions expressed herein are for general and educational purposes only. Nothing contained in this newsletter is intended to constitute legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Information obtained from third party sources are believed to be reliable but not guaranteed. M Holdings Securities, Inc. makes no representation regarding the accuracy or completeness of information provided herein. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice. 0068-2016*

---

Greenberg, Wexler & Eig, LLC  
7316 Wisconsin Avenue  
Suite 230  
Bethesda, MD 20814  
Phone: 301-656-0660  
Fax: 301-656-6001

[www.gwellc.com](http://www.gwellc.com)

Securities Offered through M Holdings Securities, Inc.  
A Registered Broker/Dealer. Member FINRA/SIPC.  
Greenberg, Wexler & Eig, LLC is independently owned and operated.



M Holdings Securities, Inc.™