Fourth Quarter
2015 Recap

Market Indices[1]	December	Q4 2015	Full - Year - 2015
S&P 500	-1.58%	7.04%	1.38%
Russell 3000	-2.05%	6.27%	0.48%
MSCI EAFE	-1.35%	4.71%	-0.81%
MSCI Emerging Markets	-2.23%	0.66%	-14.92%
Barclays U.S. Aggregate Bond	-0.32%	-0.57%	0.55%
Barclays Municipal	0.70%	1.50%	3.30%
Barclays U.S. Corporate High Yield	-2.52%	-2.07%	-4.47%

[1] Morningstar Direct *(all performance percentages are total return based, which include reinvested dividends, interest)*

At-A-Glance

- The S&P 500 fell 0.73% for the year, but had a 1.38% return when you include dividends.
- Treasury prices fell last year, with 2-year yields topping 1% for the first time since 2010, while the yield on 10-year Treasury notes climbed just 2.8 basis points to end the year at 2.242%.
- Crude oil sank 30.5% in 2015, completing its largest two-year slump on record, down over 50% since 2013.

Generally speaking, U.S. equity markets ended 2015 pretty much where they began. The S&P 500 started the year at 2,059 and ended at 2,044. This return marked the first price loss in the index since 2008. Like in 2011 when the index finished flat, dividends made the difference, pushing total return performance into positive territory. On a total return basis, U.S. stocks ended slightly higher in 2015, keeping the bull market intact for a seventh year. Overall for the year, the S&P 500 rose as much as 3.5% and was down 9.3% at its low in late August, finishing the year 4% below its all-time high 2,130 reached in May. The Dow Jones Industrial Average fell 1.52% in December, trimming quarterly and full-year returns to 7.70% and 0.21%, respectively. The technology-focused NASDAQ Composite fared considerably better, falling 1.91% last month, reducing a strong fourth quarter rally to 8.71% and its 2015 return to 6.96%.

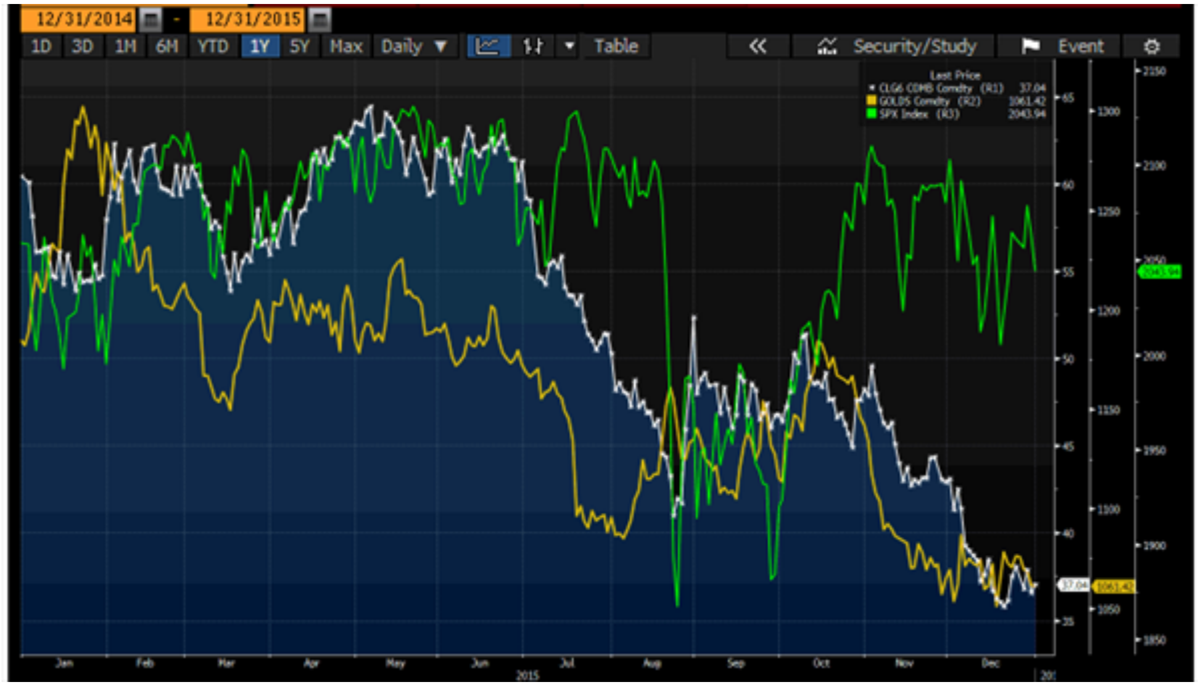
Investors began the year worrying about weakening oil prices, reduced corporate earnings growth and when the U.S. Federal Reserve would begin raising interest rates. Even as employers added jobs at a solid pace during the year and consumer confidence improved, several additional issues weighed on sentiment. Equity valuations had climbed to new highs, but by late May, concerns resurfaced as Chinese growth began slowing. China experienced further woes after Beijing initiated a crackdown on trading abuses and excess leverage, sparking a 32% plunge on the Shanghai Composite Index. Less than two months later, China's central bank surprised world markets by deeply devaluing its currency, triggering the largest drop in the yuan since 1994. The move caused havoc around the globe, with the S&P 500 plummeting 11.3% to 1,867 on August 25.

As we had forecasted in our third quarter report, the Fed waited until their December policy meeting to raise interest rates, lifting its key Fed Funds rate by ¼-point to a new target range of 0.25% to 0.50%. Fed Chair Janet Yellen forecast that interest rates may rise to 1.375% by the end of 2016, implying up to four ¼-point rate increases during the year. Even with the first interest rate hike in almost a decade, with third quarter earnings coming in better-than-expected, a strong fourth quarter rebound brought the Russell 3000, the broadest measure of U.S. equity performance, back to just above where it began the year.

Small-cap U.S. companies underperformed relative to large-cap stocks during December, the fourth quarter and for the year. The Russell 2000 Index, a broad measure of small-cap equity performance, fell 5.02% last month, gained 3.59% during the fourth quarter and declined 4.41% in 2015. The Russell Mid Cap Index lost 2.68% in December, rebounded 3.62% in the fourth quarter and fell 2.44% over the past 12 months.

Large-cap growth stocks outperformed value last month and to a greater degree in the fourth quarter and the year. The Russell 1000 Growth Index fell 1.47% last month, but advanced 7.32% during the fourth quarter, while the Russell 1000 Value Index lost 2.15% in December and rose 5.64% during the quarter. Growth stocks ended the year with a 5.67% return, but their value counterparts fell 3.83%.

Six of the ten major sector groups declined in December, with Energy (-9.87%) and Materials (-4.16%) falling the most, while Consumer Staples (+2.86%) led among gainers. For the quarter, all ten sectors advanced, led by Materials (+9.69%), Healthcare (+9.22%) and Technology (+9.17%). In full-year performance, two major themes become apparent. Reflecting weak oil, a strong U.S. dollar and slowing global growth, Energy (-21.12%) and Materials (-8.38%) fell the most, while improving consumer confidence gave Consumer Discretionary (+10.11%) top honors for the year, followed by Healthcare (+6.89%).



This one-year Bloomberg chart illustrates the dramatic 30% drop in WTI crude oil prices (white line), while the yellow line depicts a 10.4% decline in gold, its third annual decline. Gold fell for a sixth straight quarter, its longest slump since 1984. The Bloomberg Commodity Index fell 24.67% in 2015. The S&P 500 is signified in green.

A handful of leading large-cap online retailers and streaming entertainment companies performed best within the S&P 500, while seven of the ten largest decliners were all energy-related. The natural gas industry saw the three worst performers losing between 70%-80% of their value last year. As mentioned, oil capped its biggest two-year loss on record as domestic supplies rose 102 million barrels over the year, the largest oil inventory jump since at least 1920, according to government data. While U.S. shale oil producers greatly reduced their rig counts, OPEC members refrained from reducing output and instead boosted production and abandoned output limits altogether.

Turning to foreign equity markets, the MSCI EAFE Index, measuring returns on developed markets outside the U.S. and Canada, outperformed relative to U.S. equities in December. However, it underperformed the U.S. during the fourth quarter and for the year. This index fell 1.35% last month, while gaining 4.71% in the fourth quarter and lost 0.81% in 2015. In Europe, France and Germany performed best, returning 11.95% and 9.56%, respectively. Britain's FTSE 100 fell 1.03% last year. The MSCI Emerging Markets Index fell 2.23% in December and rose 0.66% in the fourth quarter, slightly paring its 2015 loss to 14.92%. Brazil's Ibovespa Index sank 13.31% on the year.

With an outlook for higher Fed rates that eventually materialized in December, the Barclays U.S. Government Bond Index lost 0.17% last month, extending a fourth quarter loss to 0.91%, trimming its 2015 gain to 0.86%.

Investment grade bonds, as measured by the Barclays U.S. Aggregate Bond Index, retreated 0.32% in December, widening its fourth quarter loss to 0.57%, which pared its return last year to 0.55%. At the other end of the credit spectrum, the Barclays U.S. Corporate High Yield Index, which measures returns on below-investment grade corporate bonds, lost 2.52% in December, capping the quarter and year with losses of 2.07% and 4.47% respectively. The Barclays Municipal Bond Index rose 0.70% last month, extending its quarterly return to 1.50%. Municipals gained 3.30% for the year, the best performing bond sector.

This report is created by Tower Square Investment Management LLC

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Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

*The **Barclays Capital U.S. Aggregate Bond Index**, which used to be called the Lehman Aggregate Bond Index, is a broad base index, maintained by Barclays Capital, and it often used to represent investment grade bonds being traded in the U.S. Barclays Capital (BarCap) U.S. Aggregate Bond Index is made up of the Barclays Capital U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.*

*The **Barclays Capital U.S. Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.*

*The **Barclays Capital U.S. Government Bond Index** is comprised of the U.S. Treasury and U.S. Agency Indices. The index includes U.S. dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government). The US Government Index is a component of the U.S. Government/Credit and U.S. Aggregate Indices, and eligible securities also contribute to the multi-currency Global Aggregate Index. The U.S. Government Index has an inception date of January 1, 1973.*

*The **Barclays Capital U.S. Municipal Bond** is an unmanaged, market-value-weighted index of investment-grade municipal bonds with maturities of one year or more.*

*The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).*

*The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.*

*The **FTSE 100 Index** is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange. The equities use an investibility weighing in the index calculation and the index was developed with a base level of 1000 as of December 30, 1983.*

*The **Ibovespa Brasil Sao Paulo Stock Exchange Index**, also known as the BM&F Bovespa, is a gross total return index weighted by market value to the free float and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange, currently 64 stocks in number.*

*The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.*

***MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.*

*The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.*

*The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.*

*The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.*

*The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.*

*The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.*

*The **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.*

*The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.*