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## Fourth-Quarter 2015 Market Review ~ We Have Liftoff!!

**January 2016** - As expected, in December the Federal Reserve raised its benchmark interest rate, the first time since 2006. The quarter-percent hike came after the central bank cut interest rates to near zero in the midst of the 2008 financial crises. An unemployment rate of 5%, half its peak during the Great Recession, continued economic expansion, and expectations for higher inflation, led the Fed to hit the liftoff button.

The Fed's move brings an end to an unprecedented period of near-zero interest rates and "quantitative easing". For seven years, the central bank held its "federal funds" rate (the bank-to-bank overnight lending rate) in a zero-to-quarter-percent range. To further keep interest rates low and stimulate the economy, between 2008 and 2014 the Fed purchased more than \$3.0 trillion of long-term Treasury and mortgage-backed securities, quadrupling its pre-crises balance sheet.

Nevertheless, the era of "easy-money" remains, with the Fed maintaining a very accommodative monetary policy of low interest rates and a \$4 trillion balance sheet. The central bank is expected to increase interest rates very gradually, with changes to policy dependent on economic data. The assets acquired during quantitative easing are expected to stay on the balance sheet until interest rates are normalized (historically an average of 4%), a process expected to take several years.

Turning to stocks, there was a sharp rebound in October after a third-quarter swoon. With a flat November and small losses in December, the fourth quarter was positive for nearly all major asset classes.

Meanwhile, 2015 was the worst year for stocks since 2008, although nowhere close to the pummeling suffered during the depths of the market crash. The Dow Jones Industrial Average lost 2.2%, the Standard & Poor's 500-Stock index slipped 0.7% (up 1.4% with dividends included), while the NASDAQ Composite index managed to pick up 5.7%.

Tumbling energy prices during 2015 resulted in a bear market for the commodity sector, with the Dow Jones Global Equity Commodity Index surrendering 27.0%. Emerging market countries were impacted by sinking commodity prices, sagging 14.6%. The bright spot for the year was International Developed Small Caps, jumping 9.9%.

Bonds were also flat or lower for the year. A stronger dollar in 2015 saw a drop of 3.2% for the global bond index. Concerns about defaults and liquidity in the U.S. Corporate High Yield market resulted in third and fourth quarter declines, with an annual retreat of 4.5%. The best performing bond sector was Municipals, gaining 3.3%.

The yield on the 10-year Treasury note closed 2015 at 2.27%, up 23 and 10 basis points for the quarter and year, respectively (the yield as of January 15th was 2.03%).

Below are rates of return for selected market indices for the fourth quarter of 2015, full-year 2015, and the three, five, and 10-year compound annual returns as of December 31, 2015.



	<u>4Q:2015</u>	<u>2015</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<b><u>Equity (Stock) Indices</u></b>					
Domestic					
Russell 1000 - Large Cap	6.50%	0.92%	15.01%	12.44%	7.40%
Russell Midcap	3.62%	-2.44%	14.18%	11.44%	8.00%
Russell 2000 - Small Cap	3.59%	-4.41%	11.65%	9.19%	6.80%
Real Estate (FTSE EPRA/NAREIT Global)	4.87%	-0.41%	5.32%	6.86%	5.16%
Commodity (Dow Jones Global Equity 100)	-1.55%	-26.95%	-14.31%	-11.66%	NA
International					
MSCI EAFE Developed Large Cap	4.75%	-0.39%	5.46%	4.07%	3.50%
MSCI EAFE Developed Small Cap	6.83%	9.94%	10.79%	6.67%	4.90%
MSCI Emerging Markets	0.73%	-14.60%	-6.42%	-4.47%	3.95%
Global - MSCI All Country IMI	5.02%	-1.68%	8.41%	6.66%	5.52%
<b><u>Fixed-Income (Bond) Indices</u></b>					
Barclays Capital					
Global Aggregate	-0.92%	-3.15%	-1.01%	1.34%	4.00%
U.S. Aggregate	-0.50%	0.55%	1.45%	3.25%	4.52%
U.S. Treasury TIPs	-0.65%	-1.44%	0.03%	3.99%	4.66%
U.S. Corporate High Yield	-2.07%	-4.47%	0.45%	4.27%	6.56%
Municipal	1.50%	3.30%	4.16%	5.96%	5.02%
International Emerging Markets	0.99%	1.29%	2.40%	6.26%	7.30%

Source: ftserussell.com, reit.com, djindexes.com, msci.com, barcap.com

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