MARKET COMMENTARY:
The January Sell-Off
January 19, 2016

The start of the New Year has been challenging on many levels for investors. It has been almost a perfect storm with a convergence of negative headlines weighing on investor sentiment during the first two weeks of the year. Some of these included the following:

- **Worries about China:** The first week of the year began with weak manufacturing data out of China and subsequent steep declines in the Chinese equity markets that halted trading on two occasions after triggering internal circuit breakers. The People's Bank of China also devalued its currency twice in one week, adding to investor unease.

- **Slower global growth:** Weak economic readings out of China flamed fears that weakness would spill over and negatively impact global growth prospects to a greater extent than previously anticipated.

- **North Korea instability:** North Korea claimed a successful detonation of its first hydrogen bomb, which was widely disputed, but the news only compounded investor nervousness.

- **Lower oil prices:** Oil prices plunged to 12-year lows during the first two weeks of the year. Oversupply fears continued as U.S. oil production increased in the most recent report. Additionally, Iran was preparing to ramp its oil production after international sanctions are lifted.

- **Weak recent U.S. economic indicators:** The main U.S. manufacturing indicator has declined for the last two months. Lower retail sales measures following the holiday spending season and declining inflation measures were also viewed from a negative perspective.

It’s worth mentioning that all of the negative items listed above have been around for a while. Additionally, not everything is all doom and gloom, and the positives shouldn’t be discounted so quickly. The U.S. economy finished 2015 with the best quarterly job gain of the year with over 850,000 new net jobs. The service economy continues to grow. Although retail sales declined in December, consumer spending is holding up well. Stock prices were not significantly overvalued before the recent sell-off started. Fixed income investments are providing the necessary ballast in portfolios as bond prices have gone up during the past two weeks.

It is also helpful to have a longer perspective when reviewing portfolio performance than just a one or two week time frame. With the steady pace of equity gains since the market low in March 2009, and not many significant pullbacks, some investors may have become a bit complacent about the riskiness of equities. However, pullbacks should be viewed from a historical perspective. Between 1975 and 2014, the S&P 500 has experienced 120 declines in the 5 - 10% range. Declines in the range of 10 - 20% have occurred 31 times. While sharp drops can be unnerving, they are a relatively routine occurrence as history has shown over the past 40 years. Even though the S&P 500 Index has experienced significant setbacks in each of the last 40 calendar years, it has recorded a positive calendar return 78% of the time.1

Market pullbacks can be unsettling. We continue to urge investors to take a long-term perspective when these events occur and not overreact emotionally to short-term news. Investors should review their objectives, goals and their investment time horizon before making any significant portfolio changes.

From a market returns perspective, both the Dow Jones Industrial Average (DJIA) and the S&P 500 Index made history but for the wrong reasons. Both benchmarks suffered their worst ever weekly declines to start the year. The DJIA was down 6.2% while the S&P 500 was down 6.0% during the first week on a price basis. Small cap stocks entered a bear market as a result of heavy selling in biotechnology stocks. Energy related investments and emerging market stocks also suffered significant losses to start the year. As of market close on January 15, 2016, the DJIA was down 8.3% and the S&P had a loss of 8.0%.

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