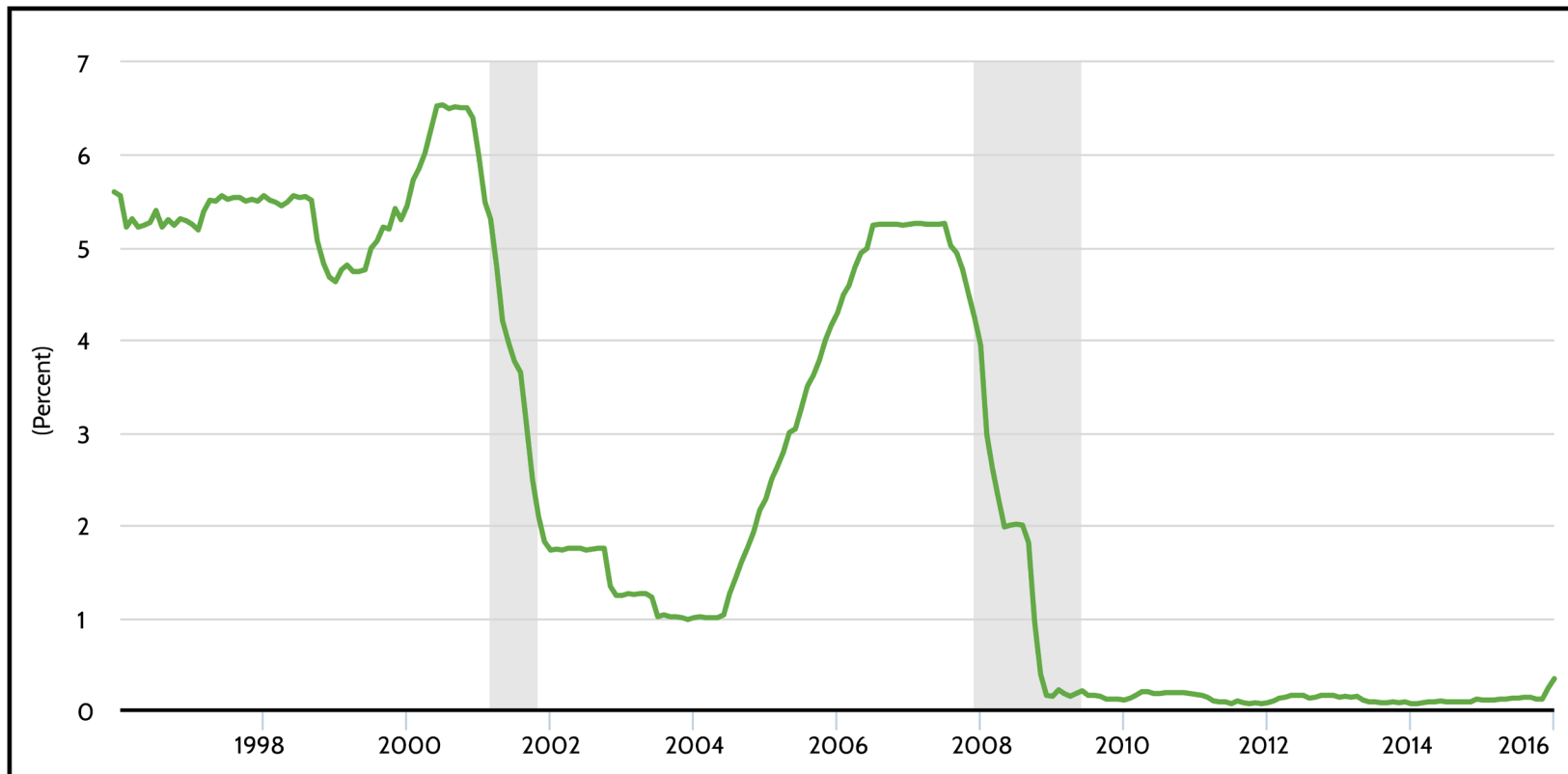


MARKET OBSERVER

It finally happened. In December the Federal Reserve finally raised rates; just a one quarter percent increase. Unlike previous rate actions by the Fed, albeit it appears that additional increases going forward will be modest and gradual with rates at current levels until there is more clarity about the economy.

Effective Federal Funds Rate



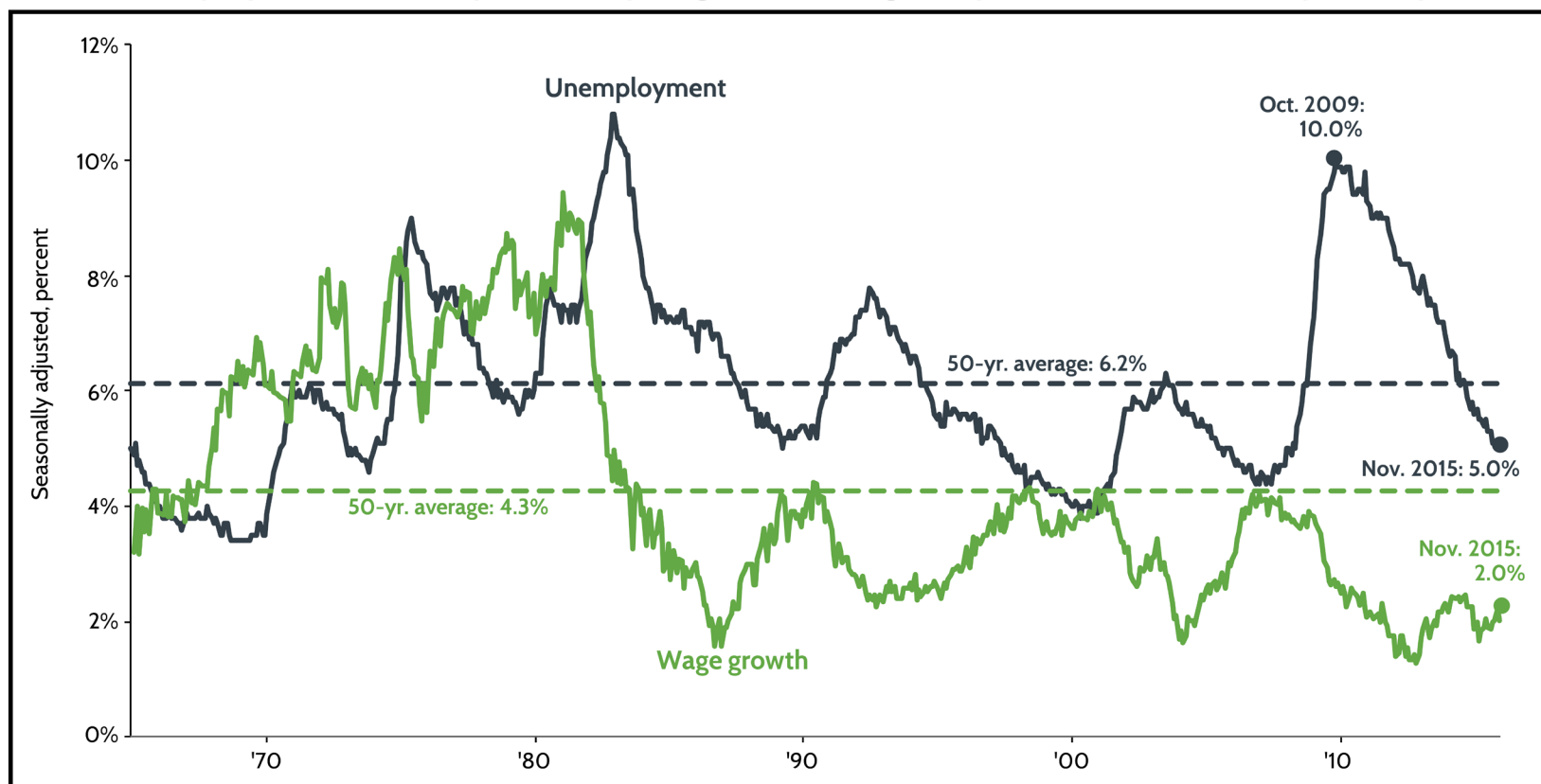
Source: Board of Governors of the Federal Reserve System (US) research.stlouisfed.org

After the sharp drop in global stock markets, the Fed quickly shifted to a more dovish, status quo posture, which provided some calming effect.

IS A RECESSION LOOMING?

With the Fed indicating more of a status quo stance and the market falling off, does this indicate weakness in the US economy? We don't think that's the case. Employment continues to improve and corporate earnings show resilience. As the chart below points out, unemployment at the end of last year stood at 5.0% (now at 4.9%), which is the lowest since 2008. Wage growth shows modest improvement.

Civilian unemployment rate and year-over-year growth in wages of production and non-supervisory workers



Source: BLS, FactSet, J.P. Morgan Asset Management. *Guide to the Markets* -U.S. Data are as of December 31, 2015.

As we pointed out in our last report, corporate earnings, excluding energy companies, while tepid were positive and overall look like they will strengthen in 2016. Furthermore, we expect to see a lagging but positive impact on consumer purchases as a result of declining oil prices.

GROWTH AND MOMENTUM VS. VALUE

There are clearly some disconnects in the market. While the S&P 500 was up about 1.5% this past year, if you took out the FANG stocks - Facebook, Amazon, Netflix and Google – the rest of the market was down 4%. In fact, most stocks (60% or more) are down more than 20% from their highs.

All of this points to growth stocks and the momentum from these stocks being a big driver last year. As we see it, momentum works, until it doesn't.

Value on the other hand, works over long periods of time. If you buy something and you feel comfortable with its value, you can hold that asset confidently for an extended time. That's how Warren Buffett invests. Yet even his company, Berkshire Hathaway, was down 11%. That, of course, is a short- term picture.

Avoid chasing momentum in this market and focus on value; after reviewing the liquidity and balance in your portfolio, that's where you want to concentrate your risk management.