Commentary from Harbour Capital Advisors' Investment Managers:

As we begin the New Year, we would like to reflect on 2015, and to frame our thinking going forward. Stocks continue to face a myriad of headwinds, and the recent period of heightened volatility is expected to extend into 2016. Today's concerns center on slowing growth in China, tensions in the Middle East between Saudi Arabia and Iran, and the potential impact of higher interest rates attributed to the Federal Reserve's recent policy to raise overnight lending rates.

2015 can best be described as 'violently flat'. On a price basis, the S&P 500 ended the year just below its starting level. Corporate profits came under tremendous pressure in 2015, serving as the primary driver behind the sluggish market return. Earnings pressure was largely attributed to the precipitous decline in oil prices which fell 40% throughout 2015. Other factors contributing to last year's challenging environment include the first interest rate increase in nine years, fears of global slowdown, and continued geopolitical concerns.

Exhibit 1: The S&P 500 traded in a range-bound fashion throughout 2015. The index opened the year at 2,058 and closed on 12/31 down 0.68% at 2,044. In between, we repeatedly saw resistance and support at the 2000 and the 2125 levels, with the index struggling to break through these boundaries. The market did suffer a period of spiked volatility in late August (spurred by a selloff in China that spilled over into global markets and caused a correction in several U.S. benchmarks) during which it dropped below the 1900 level twice. The index stabilized and recovered to previous levels by mid-October following Chinese government intervention. However, many headwinds still faced the market: a strong dollar hampered corporate profits and earnings growth; the uncertainty around rising rates stifled multiple expansion; crashing oil and commodity prices suppressed profit margins in several sectors and heightened investors' concerns about emerging markets. While still present as we move into 2016, the resolution of any of these risk factors could set the stage for market expansion moving forward.

The Year In Review

Source: Yahoo! Finance

Looking ahead into 2016, corporate profits are expected to re-accelerate to a mid- to high- single-digit level, which should correspond to an equivalent price return. Much of this forecast is predicated on oil markets beginning to settle, or at least the pace of the decline in oil prices to moderate. While the impact of moderating oil prices may take some time to be realized, by the second half of 2016 year-over-year price comparisons are expected to lead to double-digit earnings growth during the third and fourth quarter. Further, as the U.S. continues the process of raising or 'normalizing' interest rates, most of the rest of the world is attempting to stimulate growth. Current global GDP forecasts project growth of 3.15%; modest, but stronger than in the last few years. In periods of rising growth and corporate profits, stock market returns typically are positive. The S&P 500 has only had consecutive negative returns on three occasions: 1940-41 (start of WWII), 1973-74 (U.S. oil embargo), and 2000-02 (technology bubble and 9/11). Barring a significant macroeconomic event, consensus market expectations for 2016 are for market growth of ~7% on a price basis.

2016 S&P 500 Market Forecast

2016 Consensus EPS

119	1666	1785	1904	2023	2050	2142	2261	2380
121	1694	1815	1936	2057	2085	2178	2299	2420
123	1722	1845	1968	2091	2119	2214	2337	2460
125	1750	1875	2000	2125	2154	2250	2375	2500
127	1778	1905	2032	2159	**2188**	2286	2413	2540
129	1806	1935	2064	2193	2223	2322	2451	2580
131	1834	1965	2096	2227	2257	2358	2489	2620
133	1862	1995	2128	2261	2292	2394	2527	2660
135	1890	2025	2160	2295	2326	2430	2565	2700
	14	**15**	**16**	**17**	**17.2**	**18**	**19**	**20**

P/E Multiples

Exhibit2: As 2016 opens, Wall Street strategists are publishing their market growth outlooks for the year. Consensus views today point toward a moderate growth year for S&P 500 company earnings, and the market overall, in 2016. S&P 500 earnings are expected to rise 7% year-over-year to $127 from $118. This is solid progress considering that the last three quarters of 2015 posted negative to flat earnings growth. In addition, strategists are expecting the S&P 500 to finish 2016 near 2200, which would equate to a P/E ratio of just north of 17 (15 is the long term average). These projections support the view that earnings growth is expected to be the key driver of stock prices next year, rather than simply a further expansion of the P/E multiple. While early forecasts are typically revised many times throughout the year, positive views at the outset are encouraging.

Bonds also face considerable headwinds. As expected, the Federal Reserve raised the target range for the federal funds rate by 25bps in December. Current projections suggest an additional four to six rate moves in 2016. Other issues include credit concerns in the municipal market. Of late, Puerto Rico has struggled to cover its obligations, and defaulted on some bond payments this week. However, the U.S. territory quickly issued a statement that it would continue to make payments on its general-obligation bonds, tempering some of the market response. Another area of possible concern may be high yield bonds due to their exposure to energy and commodities. A higher threat of defaults in this asset class may lead to increased volatility. Current spreads are already at multi-year highs, demonstrating investor concerns. One bright spot may be investment grade corporate bonds, which are expected to improve as the economy continues to advance. Further, higher interest rates may eventually lead to higher coupons for income investors.

For more information on Harbour Capital Advisors, please visit our website at **http://www.harbourcapitaladvisors.com/**.