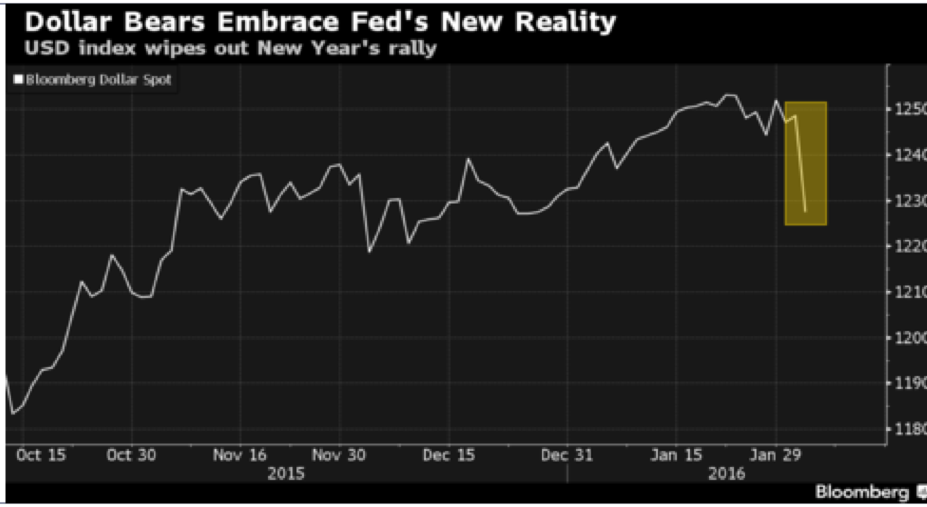
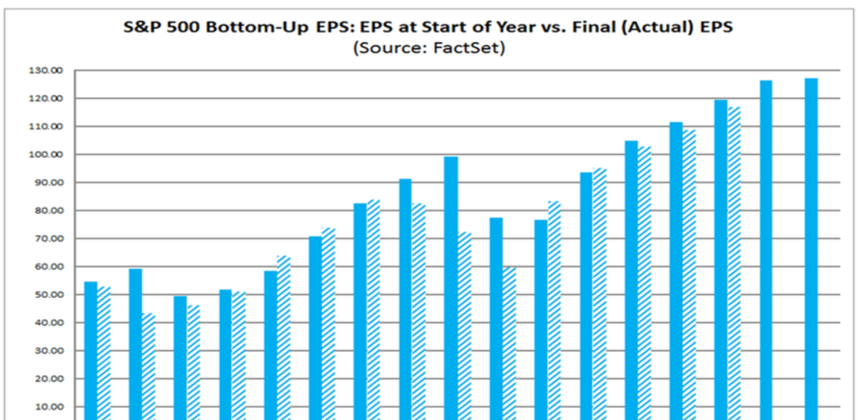
Market Recap

Fed Rate Moves' Impact on U.S. Dollar



Source: Bloomberg

Increase In Bottom-Up EPS Projected for 2016



	CY00	CY01	CY02	CY03	CY04	CY05	CY06	CY07	CY08	CY09	CY10	CY11	CY12	CY13	CY14	CY15	CY16
1-Yr	54.61	59.19	49.67	51.98	58.51	70.54	82.34	91.18	99.06	77.15	76.61	93.53	104.65	111.36	119.29	126.35	126.94
Actual	52.67	43.24	46.07	50.88	63.62	73.46	83.55	82.20	71.90	59.81	83.10	94.85	102.47	108.47	116.77		

Source: Factset

Currency traders have been betting that the dollar will appreciate as the Fed raises rates while other central banks are lowering them. However, recent softer-than-expected economic data may have ended that bet. The value of the dollar moved lower this week as investors tempered their expectations for additional Fed interest rate increases this year. Fed fund futures now predict only an 8% likelihood of a rate increase at the Fed's March policy meeting. This is down from 34% before the Fed's January meeting just three weeks ago. More significantly, this selloff in the dollar has occurred even as the European Central Bank indicated that it may need to lower rates sooner than expected, and as Japan's central bank surprised markets by cutting some rates below zero for the first time in history. The level to which the dollar is being swayed by projected Fed moves – with apparent total disregard for all other central banks' policies – is unusual. This suggests that if rate hikes stall or reverse the dollar may continue to fall regardless of actions taken by other central banks.

On December 31st, the consensus 2016 bottom-up EPS projection for the S&P 500 was $126.94. This figure represents an aggregate of analysts' estimates of corporate earnings (per share) for all the companies in the S&P 500 Index. If this projection for 2016 holds true, corporate earnings will increase again over 2015 levels and set another record. Looking back over the last 15 years, these projections have proven to be relatively accurate. In fact, the average difference between the bottom-up EPS estimate at the beginning of the year and the actual EPS at the end of the year has been +7.5%. Excluding the three years during which earnings dramatically underperformed (2001, 2008, and 2009), the average difference between the beginning of the year estimate and the final number was only .7%. With this level of consistency, it is reasonable to be optimistic that corporate earnings will improve in 2016.

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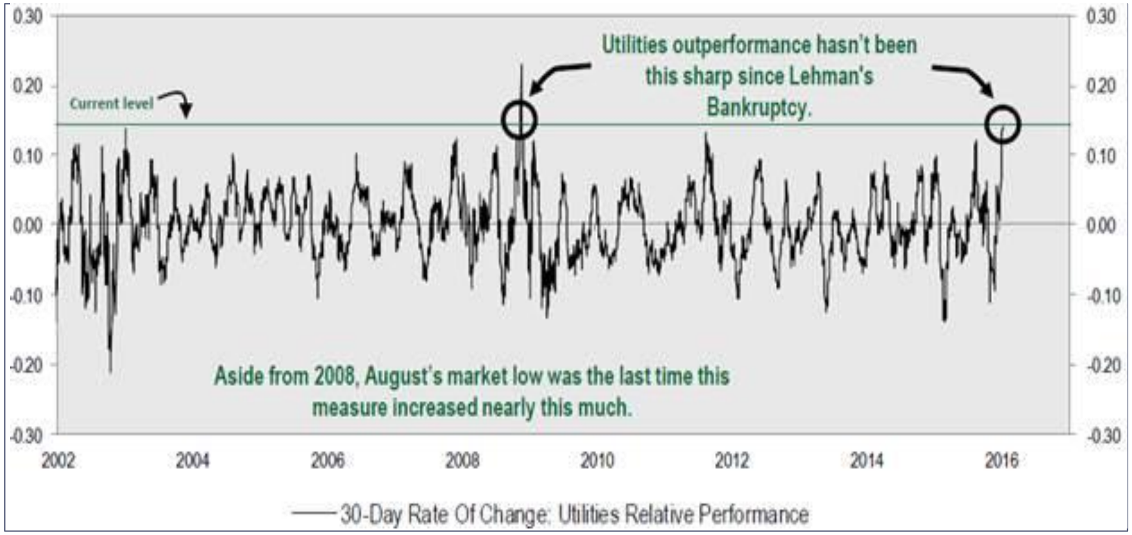
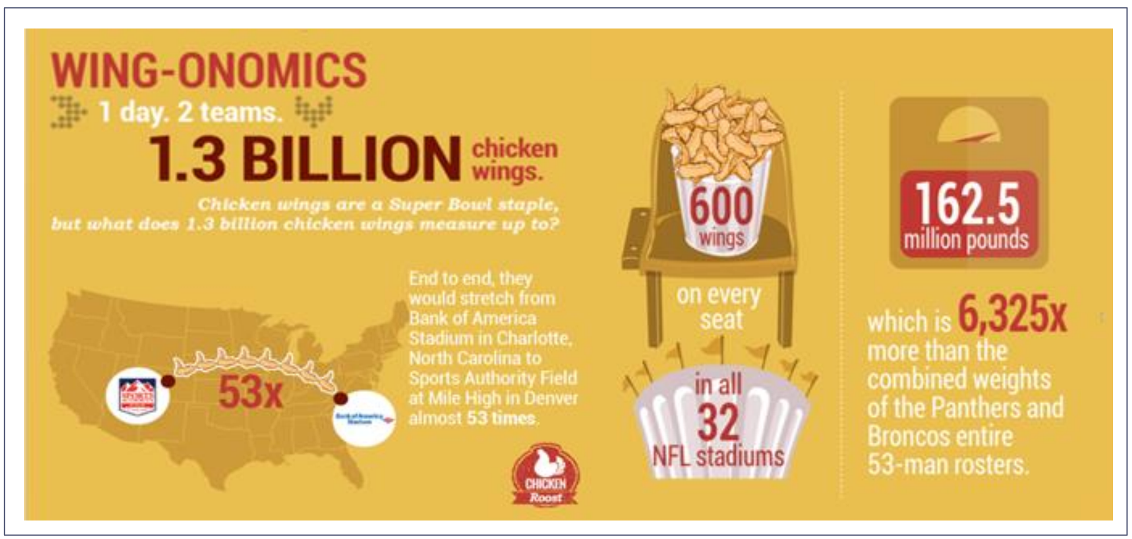
Fear Driving the Markets thus far in 2016



Source: Cornerstone

Volatility has reigned supreme in equity markets thus far in 2016, with a variety of fears playing upon investor psyche to produce large almost-daily swings across all major indices. A CSM investor survey shows heightened concern over the implications of the freefall in commodities, some form of currency-induced crisis, a financial crisis spurred by weakness in China, and, more recently, fears that the European banking system may be facing a potential crisis as well. The manifestation of these fears on Wall St. can be seen in the relative performance of Utility stocks against the broad market. Seen as a dividend-paying safe haven for investors to seek shelter in turbulent times, the market is currently trading Utilities as though we actually are in the midst of a global crisis (i.e. akin to Lehman bankruptcy days). To many, this appears to be overly harsh. The hope is that resolution of any of the above-mentioned fears or a dovish statement from the Fed backing off its stated intention to hike rates four times will drive the market higher.

Broncos vs. Panthers; Americans vs. Chickens



Source: National Chicken Council

Thanksgiving is, of course, the biggest day for poultry consumption in the United States; however, Super Bowl Sunday is a strong second place. Chicken wings have become a staple food of Super Bowl parties, and, historically, demand spikes dramatically in the week leading up to the Big Game. Americans are projected to eat 1.3 billion chicken wings this Super Bowl weekend. To put that in perspective, over the next few days, Americans will consume over 162 million pounds of chicken wings – or 6,325 times more than the combined weights of the Panthers' and Broncos' entire 52-man rosters. If 1.3 billion chicken wings were laid end-to-end, they would stretch from Levi's Stadium in San Francisco to the Atlantic Ocean… 28.5 times. On an unrelated note, antacid sales tend to jump by 20% the day after the Super Bowl.

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