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The New Year did not start out happy for stocks. Large US stocks in the S&P 500 dipped slightly below the lows from October 2014 before rebounding and ending the month with a -5.0% loss. Small cap stocks fared even worse with the Russell 2000 losing -8.8% in January. International stocks in developed markets were down -7.2% while emerging market stocks declined -6.5%. As investors sought safety in bonds, bond prices rose and yields fell. The yield on the 10-year Treasury bond finished the month back below 2% at 1.93%. The Barclays Aggregate Bond Index had a positive return of 1.38%.

Investors worried about many things during the month, and if they didn't know what to worry about, the media reminded them incessantly. Royal Bank of Scotland's warning to "sell everything" did nothing to alleviate investors' fears. Additional analyst warnings followed only to be dismissed by other high profile economic strategists. Views were all over the board. The only things they could seem to agree on is that emerging markets will continue to struggle.

China takes much of the blame for the troubles in emerging markets. China is in the process of transitioning from a manufacturing economy to a consumer driven economy and is growing at a slower rate compared to the past decade. In addition, since their building activity has decreased, they no longer need to import natural resources at the rate they had been. Many emerging markets rely on exporting natural resources and China was their biggest customer so they are feeling the ripple effect of China's slowdown. Industrial companies are also seeing the effect on their business.

Oil prices have continued their decline as supply outpaces demand. OPEC nations continue to pump and Iran is again exporting oil. Normally, a decline in oil prices is seen as a boost for the economy as people have more money to spend on restaurants and shopping. However, the decline in prices has impacted US drilling activity. There has been less demand for construction, restaurants, and hotels, etc. in the shale regions and for those who supply the energy industry as production has declined.

The dollar has continued to strengthen as foreign central banks have devalued their currencies in an attempt to boost economic growth. On the last day of the month, Japan announced a new policy of negative interest rates which sent US stock prices soaring nearly 2.5% that day.

The initial estimate of fourth quarter GDP growth came in at only 0.7% but was in line with expectations. For the 2015 year, GDP growth was 2.4%, about the same as in 2014 and also the current expectations are for 2016.

Fourth quarter corporate earnings have started to be reported; 40% of companies in the S&P 500 Index had reported as of month end. About 72% beat earnings and 50% beat expected revenues. However, earnings actually declined -5.8% versus fourth quarter 2014, and if the remaining companies stay on this track when they report, it will be the first time there have been three consecutive quarters of declines since 2009. Energy company earnings have received much of the blame as they lost 78% year over year. If energy were excluded, earnings growth would be slightly positive at 0.5%.

The public is watching to see if the Fed will follow through on their stated plan of raising short-term interest rates four times during 2016. Because of uncertainties in world economies, some analysts expect the Fed to raise rates a maximum of two times during the year.

We agree with the analysts that stocks will continue to be volatile and a closer watch on changing trends is warranted. It will be important for large cap stocks not to fall below the October 2014 support level on the S&P 500 that was tested again in August 2015 and January 2016. Diversification continues to be prudent. If you have questions regarding the strategy in your account, please do not hesitate to contact your advisor.

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