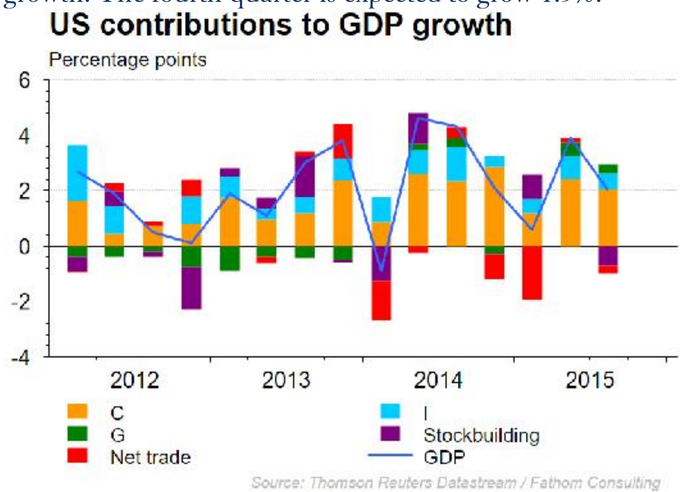
VANTAGE CONSULTING GROUP
3500 PACIFIC AVENUE VIRGINIA BEACH, VA 23451 (757) 491-1200 FAX (757) 422-5378

Market Review

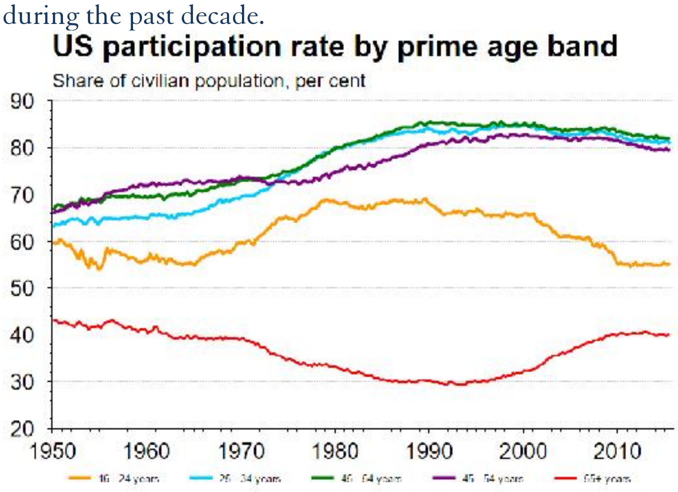
December 2015

Economic Review

The U.S. economy expanded at a 2.0% rate in the third quarter, slower than the prior estimate of 2.1%. The downward revision was the outcome of a larger trade deficit stemming from a strong U.S. Dollar, weak global demand and falling commodity prices. Volatile business inventories reduced more than expected, resulting in a lower GDP growth. The fourth quarter is expected to grow 1.5%.



Unemployment in the U.S. remained unchanged at 5.0% in November. The unemployment rate fell by 0.8% over the past twelve months. The civilian labor-force-participation-rate at 62.5%, changed little in November. The participation rate has declined in almost all groups, except 55+ years, during the past decade.

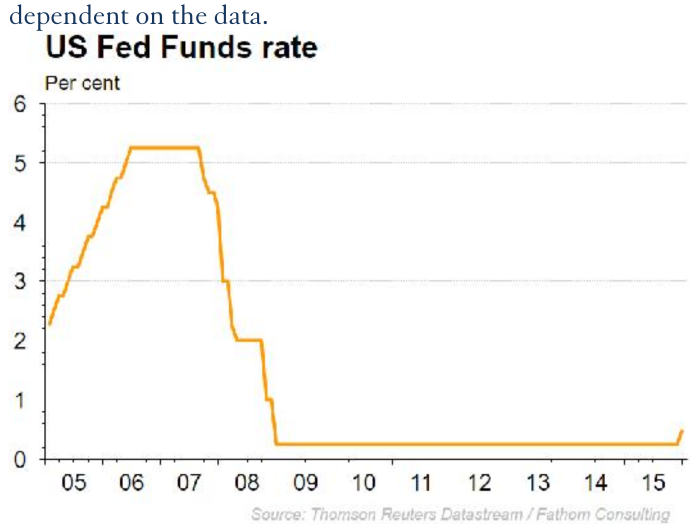


Total Nonfarm Payrolls increased 211,000 during November, in line with the average growth of 237,000 during the prior twelve months. The average workweek for all employees on private nonfarm payrolls edged down by 0.1 hour to 34.5 hours, while the average hourly earnings rose by 4 cents to $25.24.

Manufacturing activity, as measured by the Institute of Supply Management Manufacturing Index, contracted during November. The index fell to 48.6, the lowest since 2009. The service sector, as measured by the ISM Non-Manufacturing Index, fell 3.2 points to 55.9.

Headline CPI remained unchanged month-over-month (m/m) in October as the decline in energy was offset by small gains across other categories. The Index rose 0.5% year-over-year (y/y). Core CPI, which excludes food and energy, rose 0.2% m/m and 2.0% y/y. The Core PCE, Fed's preferred measure of inflation, rose 1.3% y/y. Breakeven measures of inflation declined last month. The ten-year break-even inflation rate fell by 4 bps to 1.58%.

The Federal Open Market Committee raised the Fed Funds target range (for the first time since 2006) from 0.0% - 0.25% to 0.25% - 0.50%. The hike was widely expected as FOMC members successfully conveyed the intention to raise rates through several speaker appearances and interviews leading up to the meeting. The FOMC reiterated that monetary policy remains accommodative and the future rate will be dependent on the data.



In Europe, economic data released in December were fairly positive. The economy in the Eurozone expanded at 0.3% in the third quarter, compared to the previous quarter and 1.6% year-over-year according to Eurostat's estimate of real GDP growth. GDP growth was driven by rising inventories and increased household spending, while exports declined to 0.2% from 1.6% in the previous quarter. Business activity in the Eurozone, as measured by the Purchasing Managers' Index (PMI), dipped slightly to 54 in December after hitting a 5-year high of 54.2 in November. Eurostat's estimate of November inflation was 0.2%, a slight revision higher from

VANTAGE CONSULTING GROUP
3500 PACIFIC AVENUE VIRGINIA BEACH, VA 23451 (757) 491-1200 FAX (757) 422-5378

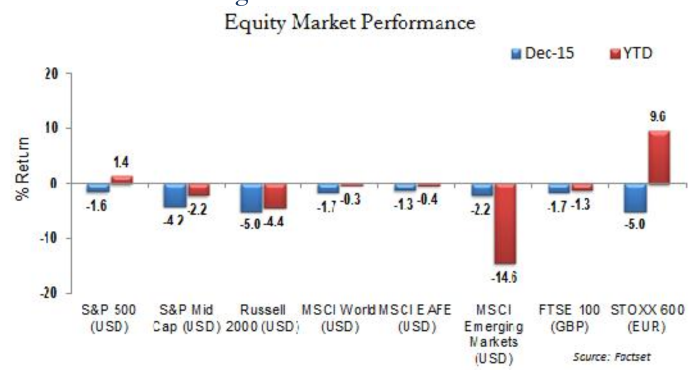
the flash estimate of 0.1% and the highest level since August. The core inflation reading, which strips out food and energy prices, fell slightly to 0.9% from 1.1% in October. Speaking ahead of the anticipated rate hike by the US Federal Reserve, European Central Bank (ECB) President Mario Draghi signaled that the ECB stands ready to intensify stimulus measures if necessary. In early December, the ECB disappointed expectations by only reducing the deposit rate while extending the current bond-buying program to at least March 2017.

In the UK, economic data were mixed. The Office of National Statistics' (ONS) estimate of third quarter GDP growth was 2.1% year-over-year, a 0.2% downward revision from the previous estimate. Weaker growth in the services sector, particularly financial services, weighed on growth. The ONS also lowered the estimate for the second quarter to 0.5% from 0.7% quarter-over-quarter. On the positive side, household disposable income rose by 0.5% in the third quarter, and November inflation ticked up to 0.1%, higher than the -0.1% in the previous month. The nine-member Monetary Policy Committee for the Bank of England (BOE) met in December and voted 8-1 to leave the policy interest rate unchanged at 0.5%. The BOE expects that inflation will stay below 1% through the first half of 2016.

In Japan, the core consumer price index (CPI) rose only 0.1% year-over-year. The low inflation reading, the first positive inflation number in six months, coupled with falling household spending and a tepid growth outlook, is pressuring the administration of Prime Minister Shinzo Abe to take further action to stimulate the weak Japanese economy. In China, a working paper released by the People's Bank of China (PBOC) signaled that the bank expects Chinese growth to slow to 6.8% in 2016, while a state-sponsored think tank recommended that the country widen its deficit to 2.12 trillion yuan in 2016 from the 2015 target deficit of 1.62 trillion.

Equity Markets

Global equity markets posted modest losses in December, with the MSCI World Index returning -1.7%. US large cap stocks, as measured by the S&P 500, lost -1.6% in December, finishing the year up 1.4%. US mid-cap stocks, as measured by the S&P 400 returned -4.2% and the Russell 2000 small-cap index finished the month down 5.0%. The headline indices for Europe (STOXX 600) and the UK (FTSE 100) returned -5.0% and -1.7%, respectively. The MSCI Emerging Markets Index lagged developed markets in 2015, returning -14.6% for the year. At the sector level, Energy stocks followed oil prices lower and posted a -9.9% return in December. Energy was also the worst performing sector for the year, returning -21% in 2015. Consumer Discretionary stocks led the market in 2015 with a 10.1% gain despite weakness in retailing stocks in recent months.

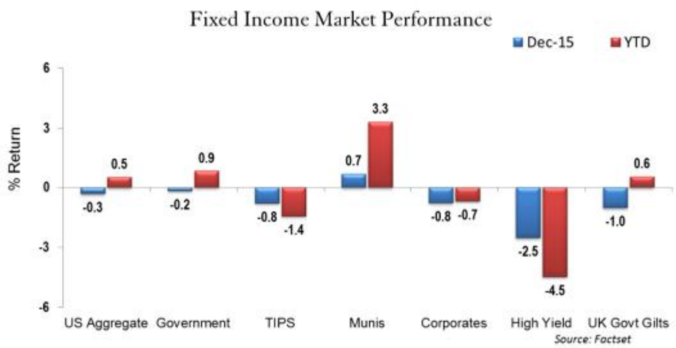


The S&P 500 traded choppily throughout the month as speculation surrounding the Federal Reserve and the Fed's ultimate decision to boost short-term interest rates dominated headlines. Market volatility, as measured by the CBOE Market Volatility Index (VIX), rose strongly in December, spiking to over 24 before settling at 18.21, up from the previous month's close of 16.13. In terms of valuation, the S&P 500 closed December trading at approximately 16.1X 12-month forward earnings. Valuation, while slightly lower than the 16.3X multiple at the beginning of 2015, is much higher than the 10-year average of 14.2X.

Bond Markets

December marked the policy divergence between U.S. and the Eurozone – while ECB embarked on additional QE, the Fed raised rates for the first time in 9 years. In spite of a hawkish move by the U.S. Fed, investors seemed to be worried about headwinds to economic growth in the U.S. as reflected in the flattening of 2/30 and 2/10 Treasury yield curve by 8 bps and 6 bps, respectively, during the month. The 10-year Treasury yield rose 6 bps to close the year at 2.27%. U.S. credit index option adjusted spread ended the year at +155 bps over Treasuries, 30 bps increase over the year.

VANTAGE CONSULTING GROUP
3500 PACIFIC AVENUE VIRGINIA BEACH, VA 23451 (757) 491-1200 FAX (757) 422-5378

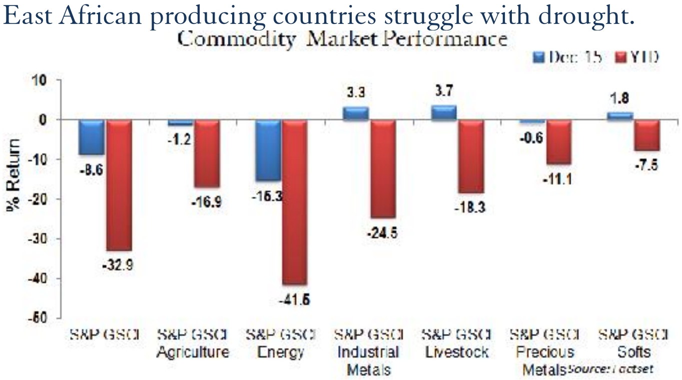


Yield Snapshot	12/31/2014	11/30/2015	12/31/2015
US Benchmark Bond - 2 Year Yield	0.67	0.93	1.06
US Benchmark Bond - 5 Year Yield	1.65	1.65	1.76
US Benchmark Bond - 10 Year Yield	2.17	2.21	2.27
US Benchmark Bond - 30 Year Yield	2.75	2.97	3.02
US Yield Curve 2s/10s	1.50	1.28	1.21
US Yield Curve 2s/30s	2.08	2.04	1.96
UK Benchmark Bond - 2 Year Yield	0.40	0.60	0.63
UK Benchmark Bond - 5 Year Yield	1.17	1.21	1.34
UK Benchmark Bond - 10 Year Yield	1.75	1.83	1.95
UK Benchmark Bond - 30 Year Yield	2.51	2.53	2.66
UK Yield Curve 2s/10s	1.35	1.22	1.32
UK Yield Curve 2s/30s	2.10	1.93	2.03
Germany Benchmark Bond - 2 Year Yield	-0.11	-0.42	-0.35
Germany Benchmark Bond - 5 Year Yield	-0.01	-0.18	-0.05
Germany Benchmark Bond - 10 Year Yield	0.53	0.47	0.63
Germany Benchmark Bond - 30 Year Yield	1.39	1.33	1.48
Germany Yield Curve 2s/10s	0.65	0.89	0.98
Germany Yield Curve 2s/30s	1.50	1.74	1.83

Source Factset

Commodities

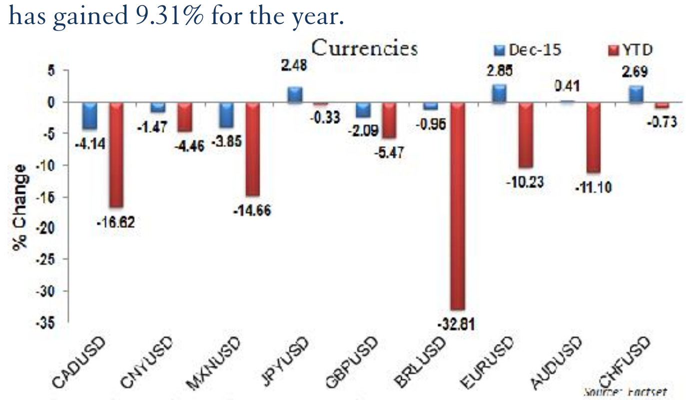
The S&P GSCI Total Return Index returned -8.6% in December, finishing the year down nearly 33%. Each of the major sub-indices posted losses in 2015, with the best performing sub-index (Softs) down 7.5% for the year. The relative outperformance in the Softs sub-index was driven by gains in Cocoa [9.6% YTD] and Cotton [3.0% YTD]. The Cocoa market was bolstered by ongoing supply concerns as East African producing countries struggle with drought.



The story in the commodity markets for 2015 was the dramatic fall in oil and oil-related commodity prices. The S&P GSCI Crude Oil index lost over 45% for the year, and has lost over 70% since oil prices broke down in early July 2014. Since peaking at nearly $150/bbl. in mid-2008, crude oil has fallen to nearly $37/bbl. as of December 2015. A number of factors have contributed to the collapse in crude prices: low global inflation, the slowdown in emerging markets and China in particular, the strength of the U.S. dollar, the prospect of Iran as a new global supplier, the new dynamics of shale and hydraulic fracturing technologies, and alarmingly high inventory growth in the United States. Continued infighting among OPEC member nations has put further downside pressure on oil prices, as investors speculate that the cartel will be unable to find a consensus to curtail production.

Currencies

The U.S. Dollar Index, after rallying for three consecutive months against a basket of currencies, gave back some of the gains in December. The Index declined 1.51% last month but has gained 9.31% for the year.



The Euro gained 2.85% against the U.S. Dollar in December, after losing nearly 5.8% over the prior three months. Diverging monetary policies between Europe and U.S. primarily led the Euro to depreciate 10.2% against the U.S. Dollar in 2015. The Euro closed December at 1.0863 USD/EUR from 1.05615 USD/EUR during the prior month. The GBP depreciated 2.09% to close the month at 1.4739 USD/GBP from previous month's close of 1.5053 USD/GBP.