777 Third Avenue | New York, NY 10017 | USA | tel. +1.212.355.1234 | fax +1.212.355.8873

It was difficult to navigate a market that had not only been influenced by an on/off expectation of a Fed interest rate lift during the second half of the year, which did not occur amid turbulence in foreign markets and mixed economic signals at home including persistently low inflation, but also by a surprise devaluation of the Chinese yuan in August, oil prices correcting over 40% to under $40 per barrel, and lastly a 3 Q selloff in stocks, especially in the Health Care sector, popular with hedge funds. The S&P 500 Total Return Index advanced 3.35% until the end of July, corrected 6.03% in August, recovered 5.75% from September through the end of October, corrected again until mid-November on conflicting data that the US economy was finally gaining a strong enough momentum for the Fed to reconsider an interest rate increase after all in 2015. As data surprises and trends were mainly negative amid lower global growth and concerns of a dollar induced earnings recession, there was a broad reallocation out of U.S. equities into other asset classes, namely fixed income. It is noteworthy that the 10 most valuable companies in the S&P 500 Index (e.g., Amazon, Apple, Alphabet, Facebook, etc.) are up approx. 21.4 % as a group this year, versus a loss of 2.6 % for the rest. The S&P 500 TRA Index was up 1%, the Barclays US Aggregate corporate bond index up 0.6% and the 10 year-treasury index was down 0.24% on 12/22.

Federal Reserve Bank Policy Outlook

The Fed started to increase interest rates on 12/16 by 0.25%. We expect this process to be very gradual so as not to reverse the little inflation the economy is generating, particularly as the slump in oil prices deepens, and to avoid a further strengthening of the dollar at the expense of US exports. Furthermore, wage growth is still inconsistent, energy prices are likely to stay low for much longer than expected, and the lack of government policies to stimulate spending and growth are likely to limit the potential for rate increases. Inflation stands at 1.7% p.a. and has in fact stagnated in six of the past 10 months and the economy is only growing at a modest 2.1% p.a. We, therefore, expect the effective rate not to exceed 1% by the end of 2016.

U.S. Economy warrants a Change in Federal Reserve Policy

As the U.S. economy is 70% consumer driven, slow global growth has only a minor impact. Low energy prices and strong job growth in the past 2 years led to an increase in real disposable income from 2.7% to 3.5% in 3Q/15. Consumer spending, therefore, contributed almost 2% on average to GDP per quarter in 2015. Future spending and sentiment will depend largely on sustained job growth in 2016. Real spending growth above 3% is considered strong relative to the last seven years, but not spectacular from a longer historical perspective.

Outlook

With an improving economy in 2016 earnings are expected to grow on average 5% in 2016 after 0.5% in 2015. The dollar is likely to continue to appreciate due to higher interest rates, however, at a slower pace with a lesser impact on corporate earnings. In equities, we expect economically sensitive growth and momentum stocks to continue to outperform income oriented undervalued stocks as the economy gathers strength in this mid-cycle phase. Technology and Consumer Discretionary stocks, with a solid internet presence, should do well. Also financial stocks, which historically performed well during rising-rate cycles, as these stocks are bought in anticipation of rising rates and appreciate ahead of rate increases. Sales growth and valuations will be the main drivers of performance in 2016. One of the few sectors providing both remains Health Care which is less cyclical, defensive and the fastest growing part of US consumer spending, amid the continuous supply of life enhancing products and a growing demand driven by demographics. Health Care trades at a discount to the S&P 500, which is very unusual, amid superior growth, strong balance sheets and less cyclicality. Also, the political risks seem rather inflated beyond managed care. The aerospace/defense industries also look attractive with expected revenue growth of 12% in 2016.

Over the past four decades longer-term Treasuries have always outperformed short-term debt and corporate bonds in the first year of higher interest rates, as inflation slowed down and the economy did not overheat. With little inflation in sight, a weak global outlook, the weakest U.S. expansion in

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decades, over 200 BSPs spread differential to non-US debt of the same credit quality, should drive demand. High yield bonds, with a potential to be upgraded, are, with yields of 6% to 8%, are a compelling alternative to equities, as the economic growth should continue to support low default rates in sectors other than Energy and Materials/Commodities. Although these sectors have had their first annual losses since 2008 amid a rout in raw materials, they have historically provided positive returns at times of increasing Treasury yields. In the investment grade space Health Care, Banking, Transportation, Utilities and Aerospace/Defense look attractive in our opinion.

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