

**Economic and Stock Market Outlooks**

**Overall Outlook**

Like unwrapping the holiday gift that had been repeatedly requested, the markets breathed a sigh of relief when the Fed raised the fed funds rate by 25 basis points in a unanimous vote, and accompanied the moves with a dovish statement. The dot-plot suggests four quarter-point hikes next year, according to Action Economics, while the median long-run funds rate is seen at 3.5%. Investors will closely watch the stock market's reaction to the highly anticipated rate hike over the coming days. Our expectation is that the lifting of the veil of uncertainty will pave the way for an end-of-year gain in share prices. Should this rally not materialize, the old adage popularized by The Stock Trader's Almanac will likely be chanted: "If Santa Claus should fail to call, bears may come to Broad and Wall."

**Economic Update**

Today, U.S. economic reports revealed a large drop of 0.6% to November industrial production, versus an expected 0.1% decline, with hits from the "El Nino" influenced winter and an associated utility sector drop, and a now-routine plunge in the mining sector. In addition, capacity utilization rose to 77.0% versus the 77.4% estimate. On net, these reports were disappointing, as industrial production growth has slowed to an estimated 1.3% rate in 2015, and is expected to advance just 1% or less in 2016 despite our much higher GDP estimates in both years. Offsetting this disappointing data, housing starts surged 10.5% in November to a 1.173 million units, versus the expected 1.133M pace. In addition, the jump in starts was accompanied by a larger 11.0% pop in building permits, as mild weather proved to be more helpful for housing.

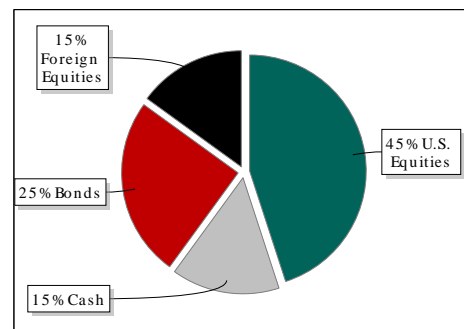
**Fundamental Update**

Buybacks continue to impact the index weights: S&P Dow Jones Indices recently reminded us that the S&P 500 share rebalancing will occur at the close of trading on December 18, 2015, based on the December 11, closing values. On 12/18, 188 issues will increase their index share counts (down from 194 in Q3, 2015 and 206 in Q4, 2014). At the same time, 288 will decrease their share counts (288 also decreased counts in Q3,'15, while 270 did so in Q4,'14). The actual S&P 500 share count will decline by 0.47% [it decreased 1.01% in Q3,'15], as none of the 10 sectors added shares. The consumer discretionary sector will see the smallest reduction in share count at -0.016%, while Materials will experience the greatest reduction in count at -0.864%. The actual S&P 500 market value will decrease by -0.50%, versus the addition of 0.24% in Q3,'15].

**Technical Update**

The S&P 500 index declined to test 1990 before rotating back to the upside. While above 1990, the bias remains rotational with resistance beginning at 2077-2092. A breach of 1990 would suggest further decline to lower support at 1937-1963. The index must surmount 2115 to shift into a bullish position. The Russell 2000 has breached critical support at 1135, which is a negative for stocks as a whole and shifted the bias in this index to bearish. The zone at 1149-1166 is now resistance on any rally attempt. While below this zone, the next downside target is a retest of the October lows at 1078. Separately, the 10-year yield remains below resistance at 2.407 and above support at 1.91-1.975. The bias is rotational while between these zones. Further rotational price action is expected until one of these levels is exceeded.

**Recommended Moderate Allocation**



**S&P 500 EPS changes as of 12/16/15**

S&P 500 Sector	EPS Growth %			
	Q3 2015	Q4 2015e	2015e	2016e
Consumer Disc.	16.4	7.6	9.7	14.8
Consumer Staples	[1.5]	[3.9]	0.0	6.6
Energy	[58.6]	[66.8]	[59.6]	[4.2]
Financials	1.2	2.4	8.9	8.7
Health Care	15.1	5.8	13.5	9.3
Industrials	5.3	0.4	3.8	4.9
Info. Technology	5.2	[4.6]	3.4	8.6
Materials	[14.6]	[21.6]	[4.8]	13.2
Telecom. Services	14.6	18.1	12.0	1.9
Utilities	1.6	[0.9]	2.5	3.1
S&P 500	[1.4]	[4.8]	[0.6]	8.0

Source: S&P Capital IQ

**Targets**

12-Month S&P 500: 2250  
 S&P 500 EPS '15E:\$117.00, 16E:\$126.19  
 S&P 500 Revenues '15E:-2.1%, 16E:+5.4%  
 S&P Euro 350 EPS '15E:+7.1%, 16E:+6.5%  
 Real GDP Growth 2015E:2.5%, 16E:2.7%  
 Core CPI 2015E:1.8%, 16E:1.9%  
 Fed Funds Rate 2015E:0.1%, 16E:0.8%  
 10-Year T-Note 2015E:2.2%, 16E:2.7%  
 WTI/bbl. Avg. '15E:\$50.24, 16E:\$53.23

**S&P 500 GICS Sector Performance and Recommended Sector Weightings**

12/15/2015

S&P 500 Sector	% Change			P/E on '16e EPS	'16e P/E to Proj. 5-Yr. EPS Grth.	Sector % Weightings	S&P Sector Emphasis	Over/Under Weight
	Dec	YTD	2014					
Consumer Discretionary	[2.5]	8.9	8.0	18.2	0.9	13.0	Overweight	0.4
Consumer Staples	1.5	2.7	12.9	19.6	2.4	9.9	Marketweight	0.0
Energy	[7.8]	[21.7]	[10.0]	27.1	[13.0]	6.6	Underweight	-0.8
Financials	[2.0]	[3.1]	13.1	13.4	1.4	16.5	Marketweight	0.0
Health Care	0.7	4.3	23.3	15.8	1.4	15.0	Overweight	0.4
Industrials	[3.2]	[5.7]	7.5	15.3	1.4	10.0	Marketweight	0.0
Information Technology	[1.5]	5.1	18.2	16.0	1.2	21.0	Marketweight	0.0
Materials	[4.7]	[10.6]	4.7	15.0	1.4	2.8	Underweight	-0.3
Telecommunication Services	0.0	[3.4]	[1.9]	12.1	2.0	2.4	Overweight	0.5
Utilities	[1.3]	[11.2]	24.3	15.0	2.9	2.9	Underweight	-0.2
S&P Composite 1500	[2.1]	[1.1]	10.9	16.3	1.4			
S&P 500	[1.8]	[0.8]	11.4	16.2	1.4			
S&P MidCap 400	[4.5]	[3.9]	8.2	17.5	1.5			
S&P SmallCap 600	[5.0]	[3.4]	4.4	18.3	1.3			

Sector recommendations are market-cap weighted, influenced by economic, fundamental and technical considerations

Technical commentary contributed by i10 Research. Please read the Required Disclosures from page 2 onwards of this report.

## Glossary

### STARS Ranking system and definition:

#### ★★★★★ 5-STARS (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

#### ★★★★☆ 4-STARS (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

#### ★★★☆☆ 3-STARS (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

#### ★★☆☆☆ 2-STARS (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

#### ★☆☆☆☆ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

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**Overweight** rankings are assigned to approximately the top quartile of the asset class.

**Marketweight** rankings are assigned to approximately the second and third quartiles of the asset class.

**Underweight** rankings are assigned to approximately the bottom quartile of the asset class.

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A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization

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