

As we head into 2016, Raymond James Investment Strategy Committee members share their outlook for the upcoming year with the following key insights and advice for investors. For a full copy of the Raymond James 2016 Outlook, please contact your financial advisor.

## 2015 REVIEW

### MODERATE DOMESTIC GROWTH

**2.2%**

GDP growth<sup>1</sup>

### JOB MARKET IMPROVEMENT

**5.0%**

unemployment

### MUTED INFLATION

**1.3%**

trend of PCE<sup>2</sup>

### DECLINING OIL PRICES

**\$37**

per barrel<sup>3</sup>



#### FIXED INCOME

Investment grade bonds were just positive in 2015; while high yield underperformed.



#### INTERNATIONAL EQUITIES DECLINE

Large cap U.S. equities (1.4%) outperformed non-U.S. developed large cap (-0.8%) and emerging markets (-14.9%).



#### RISING INTEREST RATES

The Federal Reserve raised rates for the first time in nine years. S&P 500 typically gains 5% in the year following the first Fed hike.



#### FLAT U.S. EQUITIES

Narrow in 2015, despite the first 10% correction since 2012. A few mega-cap stocks propped up the market; during August lows, 60% of the largest 4,000 U.S. companies were down at least 20% from three-year highs.

## 2016 TRENDS

A cautiously optimistic outlook for 2016 means a key theme for investors will be finding growth without taking too much risk. As legendary investor Benjamin Graham once stated, "The essence of portfolio management is the management of risks, not the management of returns."

## THE ECONOMY

### HEADWINDS



Tighter U.S. monetary policy



Slower earnings growth



Geopolitical uncertainty



A strong U.S. dollar



Lower commodity prices



Slow global growth, particularly China

### TAILWINDS



Moderate U.S. economic growth



Low interest rates



European improvement



A healthy labor market



Strong consumer spending



Stabilizing oil prices – forecast to be in the \$60 range in Q4 2016



An ongoing housing recovery

**80 MILLION** MILLENNIALS ARE ENTERING THEIR PRIME RENTAL/ OWNERSHIP YEARS.

**9.4M** RENTAL HOUSEHOLD FORMATIONS SINCE 2004.

**EXISTING HOME SALES** SHOULD INCREASE AT A LOW SINGLE-DIGIT PACE.

**EXISTING HOME PRICES** SHOULD TREND HIGHER AT A **2-5% RATE**.

**HOUSEHOLD FORMATION: 500K vs. 1.6M** (2006 - 2014) (2015)

## EQUITY MARKETS

### SECULAR BULL MARKET

S&P 500 RETURNED **250%**<sup>4</sup> SINCE THE MARCH 2009 LOW.

Secular bull markets tend to last 14 to 15 years and compound at 16% per year. The current bull market should have another 7 to 8 years.

### MODEST EQUITY GAINS

Positive earnings growth should lead to upper single-digit to low double-digit total returns for the S&P 500.

**EXPECTED 4-6%** EARNINGS GROWTH

REASONABLE PRICE-TO-EARNINGS MULTIPLE OF 18X PUTS THE S&P 500 IN THE **2,200-2,230** RANGE.

### 10.4% AVERAGE RETURN

Long-term average return of the S&P 500 since 1921

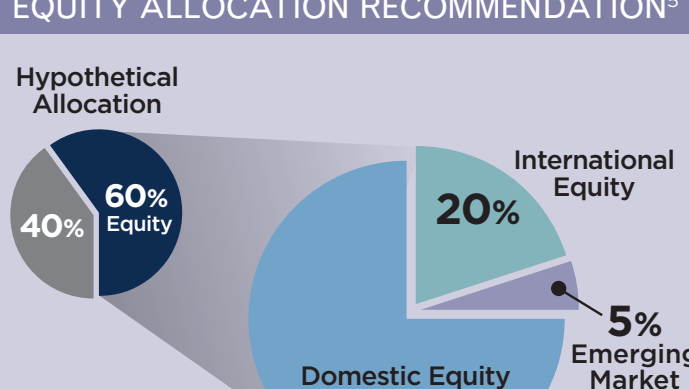
**5.0%** EARNINGS GROWTH

**4.5%** FROM DIVIDENDS

**+ 0.9%** PRICE-TO-EARNINGS MULTIPLE EXPANSION

**10.4%** AVERAGE RETURN

### EQUITY ALLOCATION RECOMMENDATION<sup>5</sup>



## EQUITY MARKET THEMES TO WATCH



**GLOBALIZATION/ INTERNATIONAL MARKETS**



**DIGITIZATION OF SOCIETY**



**ENERGY EFFICIENCY**



**MODERN MEDICINE**



**HOMELAND CYBERSECURITY**



**LONGEVITY**



**TECHNOLOGY REVOLUTIONS**



**FINANCIAL SERVICES**



**DIVIDENDS**

## FIXED INCOME

### DIVERGENT GLOBAL MONETARY POLICY

Different economies are traveling at different speeds, and central bank intervention is at an unprecedented level. 2015 saw 67 central bank interest-rate reductions; as the U.S. begins tightening, Europe continues easing.

	FIVE-YEAR RATE	TEN-YEAR RATE
UNITED STATES	1.711%	2.220%
GERMANY	-0.085%	0.562%
ITALY	0.568%	1.539%
UNITED KINGDOM	1.278%	1.890%
JAPAN	0.014%	0.246%
HONG KONG	1.000%	1.488%

Source: Bloomberg  
As of: 01/04/2016

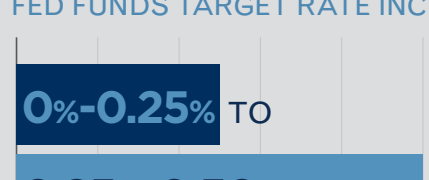
Germany's FIVE-YEAR RATE is almost

**180 basis points**

**LOWER than the U.S.**

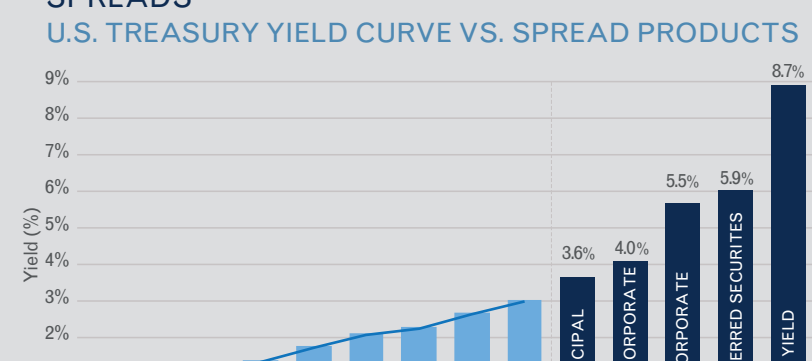
### RISING INTEREST RATES

FED FUNDS TARGET RATE INCREASED IN DEC. 2015



### SPREADS

U.S. TREASURY YIELD CURVE VS. SPREAD PRODUCTS



Source: Bloomberg  
As of: 12/24/2015

## KEY QUESTIONS FOR YOUR ADVISOR

**1** Is my portfolio appropriately positioned in line with my overall goals?

**2** Is my level of portfolio risk appropriate for my current situation?

**3** What tactical investment opportunities might exist in 2016?

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The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. Inclusion of this index is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

1 Through 9/30/2015; 2 Personal Consumption Expenditures vs. the Fed's 2% target, as of 11/30/2015; 3 As of 12/31/2015; 4 On a total return basis; 5 Asset allocation does not ensure a profit or protect against a loss. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. ©2016 Raymond James & Associates, Inc., member New York Stock Exchange/ SIPC. ©2016 Raymond James Financial Services, Inc., member FINRA/SIPC. Investment products are: not deposits, not FDIC/NCUA insured, not insured by any government agency, not bank guaranteed, subject to risk and may lose value. Past performance does not guarantee future results. There is no assurance any of the trends mentioned will continue or forecasts will occur. Investing involves risks, including the possible loss of capital. Dividends are not guaranteed and will fluctuate. 16-WWW-0442 CW 2/16