Hughes Investment Advisory Services LLC

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Dear Clients and Investors,

Happy New Year. US stocks closed out the final trading day of 2015 with both the DOW and S&P 500 suffering their first year of negative returns since 2008 when the financial crisis was in full swing.

The S&P 500 was up 2.5% for the fourth quarter and down .7% for 2015. The other popular index, the Dow Jones Industrial Average was down 2.2% for the year. Each year I like to reflect back on last year's predictions to see how they turned out.

Where was I correct? Inflation remained subdued with a 0.5% rise in 2015. In fact inflation was so low that the Federal Government gave no raise to seniors social security payments for 2016 based on no inflation in 2015. This is only the 3rd time in 40 years that this has occurred. Consumer confidence remains strong rising from 93 last December to 96 now. Both the auto industry and the housing markets remained strong. US auto sales are on pace to break the industry's single-year record at 17.5 million a rise of 5.7% from last year. The S&P/Case Shiller US Home price Index is up 5.16% The unemployment rate dropped even more than I expected and now sits at 5%. Interest rates did rise but less than I expected, for 2015 the 10-year Treasury Note rose slightly from 1.97% to 2.27%. The Fed did finally raise interest rates in December with a ¼ rise in the Federal Funds rate, the first increase in 9 years.

Where was I incorrect? Unfortunately, where it counts the most: Stocks did not rise as I expected in 2015. US stocks were down about 2% versus my expectation of a 9% rise and emerging market stocks dropped approximately 15% versus a 12% predicted rise. US GDP grew less than I expected with growth of 2.1% (first 3 quarters of 2015) versus my expectation of 3.5% I am expecting 4th quarter GDP growth to come in below expectations in a range of .5-1% which means that we are entering 2016 with very little momentum.

What lies ahead for the US and World economies and markets in 2016? The year is not off to a positive start with stocks down the last week of 2015 and so far in the first trading days of 2016. Additionally as mentioned above, the US economy appears to currently be slumping with GDP estimates coming down the last several weeks. Will the Federal Reserve continue to raise interest rates in 2016? With one ¼ point increase completed and 3-4 more increases expected in 2016 how will this effect the economy and investments?

First, my expectations are for only 1 or 2 more interest rate increases by the Fed in 2016. With nearly zero inflation and oil and gas prices plumbing new lows again this week I think that the Fed will be fighting deflation rather than inflation in 2016. Despite unemployment at 5% there are currently no wage pressures and millions of healthy unemployed workers that can enter the workforce as employment conditions improve. Conditions outside the US remain weak with China decelerating, Brazil and Russia in recession and Europe and Japan still struggling to register meaningful GDP growth. Geopolitical concerns are escalating in the Middle East, the Korean peninsula and terrorism continues unabated.

2016 is an election year and my near-term expectations for any meaningful pro-growth legislation out of Washington are muted. The Federal Reserve has done most everything in their power to help the US economy and the next step must come from our legislators in Washington. The great historical challenge remains the industrial worlds stagnation, which can't be solved without a basic rethinking of its tax codes, regulatory systems and welfare missions.

On a positive note, in 2015 investor attitudes have shifted from complacent to skeptical worry. In investing, that latter environment provides better return potential and therefore now looks to be a good time to be invested in US stocks as we move into the new-year. The US economy remains an oasis in a sluggish world economic environment. Interest rates remain accommodative and near record lows, inflation is subdued, employment is strong and the dollars strength and role in the world economy is growing. Low energy prices are boosting consumer's cash flow. My big 3 economic indicators continue to show strength or stability rather than recession, these are Auto sales, Housing and the yield curve.

Some predictions for 2016:

- The S&P 500 will rise 10%, GDP growth of 2.75%, Unemployment 5.0%
- Emerging market indexes rise 13%
- Interest rates continue a gradual rise, 10-year note yield 2.75%
- Real estate and auto industry slow with increases in growth of 1-3%
- Consumer confidence remains strong but weaker than 2015
- Inflation remains subdued – under 2%
- Oil surprises on the upside with the price back above $50.00 per barrel

At this time I continue to favor large-cap, dividend paying, multi-national companies with strong balance sheets and emerging markets with an emphasis on Asia. Risk/Reward continues to favor equities over fixed income. Select MLP's, REITS, convertible bonds and Municipal bonds continue to look good as income producers.

J. Britt Hughes
Registered Investment Advisor
Britthughes2@icloud.com
www.hiasllc.com