Topics for today's investors
Winter 2016

Outlook

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The Murphy Wealth Management Group

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The year behind

We wanted to provide some color on the key events of 2015 and how they impacted financial markets. It was a year marked by a handful of risk events, but fortunately nothing catastrophic enough to take investors far off the path to realizing their long-term financial goals. As we look back, one thing that strikes us is how important it was to be fully invested starting on January 1, 2015. Those investors who took longer to put money to work ended up missing most of the year's gains, such as they were.

January 22: Quantitative easing at the European Central Bank (ECB)
Nearly six years after the Federal Reserve first began quantitative easing, the European Central Bank started its own program shortly after the start of the year. The ECB opted for open-ended balance sheet expansion to address sluggish growth and inflation. The euro plunged against the dollar, and eurozone equities rallied sharply, gaining a lead over their U.S. counterparts that they retained throughout the year.

June 10: "Peak oil"
West Texas Intermediate crude prices began to rally in the spring, topping out at $61 before plunging to as low as $34 in December. The global supply glut continues to put downward pressure on the oil price and, as we've seen, the effects of falling oil prices reverberate loudly in equity, credit and currency markets, creating stark categories of winners and losers.

July 5: Greeks reject austerity (before accepting it)
The Greek populace surprised observers by voting down a referendum seeking approval to accept a fiscal bailout from the European Union. It was financial markets' first big risk-off event of the year as it threatened the integrity of the euro. In the end, the Greek government was forced to accept a bailout package that was stricter than the one voted down, forestalling another Greek crisis for at least a few years.

UBS

Year in review: S&P 500 annotated

Source: UBS

August 11: China lets its currency fall
The Chinese government allowed its currency peg against the U.S. dollar to weaken by 3% over several days, alarming markets and leading to the first 10% drop in U.S. equity markets since 2011. Fears that the move was a signal of severely weakening Chinese growth fueled the selloff, but subsequent data releases seemed to indicate the panic was overdone. Developed market risk assets recovered the majority of the losses by the end of October.

November 13: Terror in Paris
Gunmen operating under the banner of ISIS murdered 130 people across Paris and wounded hundreds more in the worst terrorist attack in Europe in 10 years. Although the initial market reaction was muted, the attacks brought a simmering debate over Syrian refugees to a boil and, along with a similar but smaller-scale attack in California, created new urgency over the global response to the spread of ISIS in the Middle East. Notably, global risk assets have failed to stage a sustained rally in the wake of the attacks.

December 16: The Fed finally hikes
Close to seven years after slashing its policy rate to zero, the Federal Reserve was finally able to raise it again by a quarter point. The Fed cited improved labor market conditions and a belief that inflation will accelerate in the medium term as reasons for the move. Markets had largely priced in the hike after a series of good employment reports, and attention now turns to whether the Fed will find economic conditions appropriate to hike four times next year, as it says it plans to.

The year ahead: Thoughts from our strategists

A Q&A for 2016

	What might surprise investors?	What worries you?	What is your best 2016 investment idea?
Mike Ryan	Emerging market equities bottom out and outperform developed market equities	Oil prices continue to decline and cause "collateral damage" across credit markets and EM	Small cap equities finally shine
Jeremy Zirin	Oil prices rebound, high-yield bonds stop bleeding and small-caps outperform large-caps	Uncontrolled property and industrial slowdown in China leads to slumping global growth and investor confi-dence	Technology and healthcare for growth; energy for value
Brian Nick	Longer-maturity, higher-qual-ity bonds continue to deliver solid returns	U.S. investors having too little FX exposure with the U.S. dollar so strong	The eurozone recovery: Italy and financials
Barry McAlinden	High-yield bonds outperform U.S. equities	A liquidity event jolts the rates or credit markets for a pro-longed period	Investment-grade corporate bonds
Kristen Stephens	Muni fund flows stay solid as investors don't react to taxable high-yield bond stress	An unexpected muni credit event and the resulting contagion	Munis
Michael Crook	Active managers underper-form, on average	Investors counting on higher interest rates to meet return objectives	Swap adjustable-rate liabilities to fixed-rate liabilities
Stephen Freedman	OPEC cuts production	Emerging market woes worsen and darken the outlook for the U.S. and Europe	Energy efficiency plays
Sally Dessloch	U.S. recession	Rapid slowdown in Chinese growth eroding global growth and risk appetites	Technology, healthcare, energy

Preferred investment views

For more information, please see *UBS House View*, December 2015.

Asset classes	Most preferred	Least preferred
Equities	– U.S. small caps	– U.K.
	– Eurozone	
	– Japan	
	– The rising Millennials	
	– North American energy independence	
	– U.S. technology	
	– Cancer therapeutics	
	– Valuing your human capital	
Fixed income	– U.S. investment grade	– Government bonds
	– Beyond benchmarks	
Currencies	– NOK ↗	– EUR ↘
Alternative investments		

↗ Recent upgrades ↘ Recent downgrades

Note: U.S. mortgage-backed securities were removed from Most Preferred under Fixed Income on November 9, 2015.
Source: UBS CIO WMR, as of November 19, 2015