"It's tough to make predictions, especially about the future."

Yogi Berra (1925-2015)

In January, we published our *2015 Global Asset Allocation Review*, and throughout the year we revisit this work based on new and updated information that may influence our outlook for the financial markets. In this piece, we review economies, markets and valuations and provide commentary on changes in 2015, summarized in the table below.

During 2015, investors have been following three major factors: (1) the pronounced decline in commodity prices; (2) a slowdown in China; and, (3) the continuation of low interest rates globally.

1) Commodity prices, as a group, have been in decline for over four years. After a 12-month correction of over 50%, oil prices have yet to stabilize. The sustained weakness in oil prices benefits consumers, and commodity dependent companies and countries. The reverse is true for producers and exporters of energy and natural resources.
2) China is growing much slower than expected. The Chinese manufacturing sector has little (if any) growth while the services sector, roughly half their economy, continues to see growth in the 8-10% range. Best estimates place Chinese economic growth in the 6-7% range, well below the 10-12% rates of several years ago. This marked slowdown in the world's second largest economy has unsettled financial markets.
3) In response to weak demand, central banks have kept interest rates near zero to stimulate borrowing and growth. In the U.S., better GDP numbers led the Fed to say they intend to raise interest rates, but their lack of action has caused uncertainty and shaken investor confidence.

Region	January 2015 Outlook	October 2015 Commentary
United States	• GDP Growth is projected at 2.5-3.0% for 2015.	• Same, currently toward the low end of our anticipated range.
	• Dollar to remain strong as US economy leads other countries in strength of recovery.	• Same
	• Expect the Federal Reserve to raise rates in 2015	• Same
	• Equity returns in 2015 will moderate to single digits after several years of double digit returns.	• Absent a fourth quarter rally, this would be the first negative year since 2008. • A correction of -12% from the July high brings the S&P 500 Index to -5% YTD.
	• Equity valuations above historic median, but still reasonable relative to current interest rates.	• Valuations now closer to historic median. Strong dollar a modest negative to corporate profits.
	• Interest rates may rise, but very slowly in 2015.	• Same
Developed Markets	• European growth to accelerate in 2015.	• Same
	• Japan making progress toward improved growth	• Growth has been positive, but slower than expected.
	• Expecting positive returns from Europe given low valuations relative to US equity market.	• MSCI Europe is -5% YTD in 2015.
	• Japanese equity returns expected to lead other developed markets.	• Equity market is +0.5% YTD in 2015, one of the better markets.
China & Emerging Markets	• China growth slowing but still a major global contributor.	• Slowing more than expected. • Unanticipated currency devaluation and government intervention shook the markets.
	• Commodity exporting nations will be hurt.	• Same, but intensity and duration of commodity price decline continues to be a major concern.
	• China equity markets may reflect weaker outlook.	• Highly volatile returns to date in 2015 with the MSCI China -11%.
	• Positive on select emerging markets - those with less dependence on export of commodities.	• Disappointing this year as the MSCI Emerging Market index is -15%.

In summary, oil prices have not stabilized, China is worse than expected, and interest rates reflect subdued global economic growth. While these factors are not new, the combined effect has dampened investor confidence and caused increased volatility.

What is new is the enormous number of refugees who have flooded into Europe from the Middle East and Africa. There has not been a migration of displaced populations from this many countries since World War II and there are economic, political, and social implications that will play out over the coming years, primarily in Europe. Among the challenges will be the cost to house, feed, employ, and integrate so many migrants at a time of minimal growth across most EU countries.

Global equity markets declined 12-25% from their peak levels. US companies have faced foreign exchange headwinds and the energy sector earnings are suffering from low oil and gas prices. Developed country markets have performed similarly to the US. The Greek debt crisis tested EU resolve, but it held together. The developing market economies and markets, particularly those that are commodity exporters, have been weak. Nevertheless, most major economies are growing, employment is improving, the housing market remains in an uptrend, inflation overall is low, and equity valuations are more attractive than several months ago. We continue to see current opportunities in stocks relative to other asset classes.