2015: The Stock Market in Review

As New Year's revelers welcomed in 2016, the investors among them were likely uttering "good riddance" to 2015 -- a year in which major U.S. equity indexes finished roughly where they began, despite the roller coaster ride that investors endured in the intervening months.

After reaching their peak for the year in May, stocks entered a period of prolonged market volatility from which they did not recover -- and which included a 10% correction in August.

The broad-based S&P 500 index ended off a fraction on the year after three straight years of double-digit gains. The Dow Jones Industrial Average also ended the year down slightly, and both indexes turned in their worst performances since 2008.[1] Meanwhile, the normally more volatile NASDAQ Composite posted a significant gain, but remains below its all-time peak, set 15 years earlier.

Major Domestic Index Performance, 2015

Through 12/31/15*	Year-to-Date	1-Year	3-Year Annualized	5-Year Annualized
S&P 500	-0.7%	-0.7%	12.7%	10.2%
Dow Jones Industrial Average	-2.2%	-2.2%	10.0%	8.5%
NASDAQ Composite	5.7%	5.7%	18.4%	13.5%

Source: Wealth Management Systems Inc. The S&P 500, Dow Jones Industrials, and NASDAQ Composite are unmanaged indexes. It is not possible to invest directly in an index. Past performance is no guarantee of future results. Not responsible for any errors or omissions.

*Price only. Does not include dividends.

In terms of sectors, Consumer Discretionary led the pack with companies like Starbucks and Home Depot turning in strong showings. On the other end of the performance spectrum, the Energy sector was the worst performer, dogged by plummeting oil prices.[3] Technology stock enthusiasts had a banner year with companies like Amazon and Netflix soaring to triple-digit gains.[4]

Driving the Market

After reaching their peak for the year in May, stocks entered a period of prolonged market volatility from which they did not recover -- and which included a 10% correction in August. Among the forces contributing to volatility and lackluster market performance in 2015 were:

Eroding commodity prices, particularly oil. After the 45% decline in oil prices in 2014 few expected another 30% plunge in 2015.[2] By year-end, crude oil was trading at under $40 per barrel -- less than half its post-Great Recession peak. New domestic oil and gas production helped fuel the drop, as did soft global demand due to economic weakness in key regions, including China.

The strong dollar. The dollar rallied considerably in 2015, rising more than 10% against other major world currencies. The currency trend may help reduce the cost of imported goods for U.S. consumers, but it can also create a headwind for U.S. manufacturers and businesses that sell products abroad, as it makes American goods more expensive and less attractive overseas. The strengthening currency has already hurt earnings of several large multinational companies and the U.S. manufacturing index hit its lowest level in December since June 2009, also at least partially because of the strong dollar.[5]

For investors, the rising dollar means that the value of their existing overseas investments may be depressed when reports are translated into U.S. dollars. But it also means that the cost of new overseas investments should be lower.

Uncertainty over Federal Reserve policy. After what seemed like endless speculation and hand-wringing about when the Federal Reserve would move to raise interest rates and by how much -- the Fed finally increased its short-term interest rate target for the first time in nearly nine years in mid-December. The target now stands at 0.25% to 0.50%. The Fed's target rate directly applies only to the least risky credit in the private sector -- overnight loans between major commercial banks. But it helps set the tone for the indexes used to determine all kinds of floating interest rates from money-market funds to home equity credit lines.

China's economic slowdown. One factor holding the Fed back from raising rates until late 2015 was the marked slowdown in China's economy -- and the ripple effect it has been sending across the emerging markets. Disappointing economic data coupled with China's devaluation of its currency set off a fierce round of downward volatility in August 2015 that gripped virtually all major global markets. Investor fears over China's economic woes reemerged once again on the first trading day of 2016. World equity markets, taking their cue from a huge selloff overnight in Asia that resulted in a trading halt in China, fell sharply, with heavy selling also seen in Europe and the United States.[6]

These are just a few of the factors and events that indicate once again how interrelated the world's economies and investment markets have become. And although markets have proven to be unpredictable, for now, it appears that global volatility is likely to be with us for the foreseeable future.

[1]*CNBC.com*, "Stocks close lower; worst year for S&P, Dow since 2008," December 31, 2015.

[2]*Barron's*, "2015 Stock Market in Review," December 19, 2015.

[3]*MarketWatch,* "2015 year in review: The S&P'winners and losers," December 31, 2015.

[4]*CNN Money*, "Dow closes worst year since 2008," December 31, 2015.

[5]*CNN Money*, "U.S. dollar starts strong in 2016," January 5, 2016.

[6]*Value Line*, "Stock Market Today: December 31, 2015," December 31, 2015.