

Over the course of the year, anxiety mounted over higher interest rates from the Federal Reserve and the strong US dollar relentlessly battled exports. Japan's faith in 'Abenomics' was, and still is, being tested, as new policies have yet to materially affect the real economy¹. The Chinese government tried to fend off growing pains as their economy moves to a more mature stage, while also foreseeing a population problem. Brazil's government appears to be corrupt, although that is nothing new². The mood in Europe doesn't get better as the bloc's economic recovery insists on taking two steps forward and one step back (Grexit, Brexit, refugee crisis, etc.)³. The Middle East continues to implode, while Russia keeps trying to talk themselves out of a recession. As all of these headlines imply, 2015 was a volatile year, but in the end it was a trip to nowhere. Most US markets finished flat to slightly down, European markets were slightly up, China endured a roller coaster to finish modestly higher, and most emerging markets saw their doldrums continue.

In every 2015 note we authored, 'policy normalization' was mentioned at least once, and the first note of 2016 is no exception. Our repetition of this phrase is not by coincidence, as it is important to constantly reevaluate where the economy is positioned in the overall cycle. As a refresher, we see an economic cycle having four stages: recession → recovery → normalization → expansion, and we maintain the belief that the US economy is still wading through a normalization period. It can be argued that this stage started in the summer of 2014 when Ben Bernanke began the rumor of ending government bond purchases (QE)⁴. QE was subsequently stopped in December 2014 and new Chair Janet Yellen raised the overnight rate one year later (Dec 2015) – hence, 'policy normalization'.

While it seems pretty straightforward to say "an expansion is in front of us, buy US equities", the ever-increasing globalization of the world and the liquidity of markets make it far more complicated. It seems apparent to us that some parts of the market are extended, like early tech start-ups in the Silicon Valley area⁵, creating a large disparity against underappreciated assets,

S&P 500 2016 Year-End Target

Scenario	Probability	2016e EPS	2017e EPS	FPE Multiple	2016 Target
Bull	15%	\$128	\$138.5	18x	2490
Growth		6%	8.5%		
Base	55%	\$125	\$133	16.5x	2202
Growth		4%	6.5%		
Bear	30%	\$122	\$118	14.5x	1710
Growth		1.5%	-3%		

¹ 'Abenomics' was coined for PM Shinzo Abe, who is trying to spend his way to prosperity (Keynesian economics)

² Referring to the scandal involving Pres. Rousseff and Petrobras executives

³ 'Grexit' – Greek leaving the Eurozone, 'Brexit' – Britain leaving the Eurozone

⁴ Government yields subsequently staged a large rally in 3 weeks

⁵ Referring to the high valuations of certain tech start-ups (known as Unicorns) & the Silicon Valley boom

like media companies and oil giants. If this disparity continues, we find it unlikely that the market will experience a 90's like expansion. The same is true if disparity shrinks, as earnings growth would be shifted from one asset class to another. Each disparity scenario means a smaller expansion than in past periods. As history often proves, we believe that periods of expanding disparity (2015) are followed by periods of shrinking disparity, making us much more selectively optimistic about certain market sectors than about the US market as a whole.

2015 Lookback

In 2015, a lot of volatility created nothing, as most US indices ended the year flat to down. In fact, 2015 set up to be the worst year for investors since 1937, another 'normalization' year after the nation's slow recovery from the Great Depression. Over the past twelve months, US equities, long term bonds, short term bonds, cash, and commodities all struggled, as the top performer gained 2%. Even 2008 gave investors a 22% return in long term bonds.ⁱ

As we reflect back on our original 2015 outlookⁱⁱ, some themes stand out that we correctly forecasted, wrongly forecasted, and carry over into 2016.

What we got correct:

A roughly flat year in the S&P 500.

The S&P 500, the Dow Jones Industrial, and the Russell 2000 all ended the year slightly lower, while the NASDAQ crept slightly higher. We forecasted around a 4% total return, making our prediction slightly higher than the outcome. The S&P 500 index as a whole is slated to earn \$120/share in 2015, giving the index a 17.25 P/E ratio and a 16.5 forward P/E ratio – both slightly higher than the 10 year average.ⁱⁱⁱ

EU markets outperform US ones.

We made this call based on valuation, as the EU was cheaper than the US on a multiple basis⁶. The European Central Bank's accommodative monetary policy also provided a tailwind. Germany ended the year higher by 8%, France higher by 9%.

Unconstructive on Japan and China

The Nikkei (Japan) ended the year up 8%, the Shanghai Composite (China) up 5%, and the Hang Seng (Hong Kong) ended down 7% - making our call half right. Although some positive returns were found, we believe the economic and market risks in these areas still greatly outweigh the mid-single digit returns.

Utilities and Fixed Income underperform

Each of these rate sensitive sectors face headwinds in a normalizing environment. Utilities were lower by 3%, longer duration US treasuries were off around 2%, and the high yield index was lower by 6%⁷.

What we got wrong:

Crowded/momentum trades losing steam

In a normalizing period, expensive assets⁸ should retract because investors are no longer willing to pay a high premium for yield or growth (see [The New Normal](#)). Unfortunately, we were early on this call. 2015 became the year of more disparity, not less. In fact, the top 5 performing stocks in the S&P 500 (AMZN, GOOG, MSFT, FB, & GE)⁹ accounted for more than 100% of the entire index's return. Said another way,

⁶ MSCI EU Index was trading around a 2pt multiple discount at the beginning of 2015

⁷ Quoting the TLT (Constant 20 year treasury bond) and HYG (High yield index) ETF's

⁸ On a multiple basis, not price

⁹ Amazon, Google, Microsoft, Facebook, & General Electric, respectively

the other 495 stocks in the index are down more than 5% collectively.^{iv} Even iconic investors, such as Buffett, Icahn, Einhorn, Soros, and Slim cannot fight that type of disparity¹⁰.

Small cap stocks outperform large cap stocks

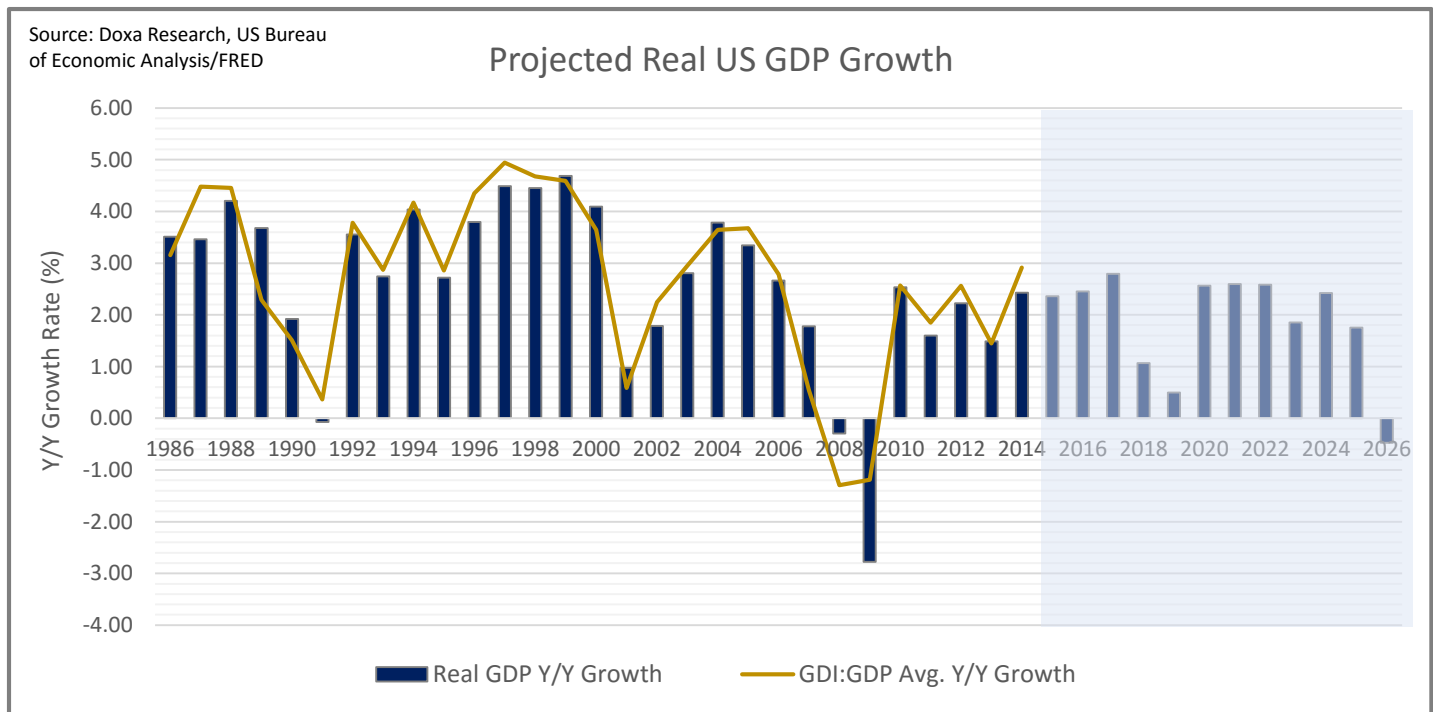
As the US dollar strengthens, imports become cheaper and exports become more expensive for companies operating in the US. While this remains true, it did not appear to benefit smaller companies, as the Russell 2000 lagged the overall market by 3%. We underestimated the globalized reach of a strong dollar on even the smallest companies.

WTI crude oil recovering to \$60 per barrel

Here, we overestimated the swiftness of which production would react to a severe price decline. Demand largely impressed – global demand hitting a five year high of 1.8 million barrels per day and China's demand for crude increased 10.4% year over year, marking the highest figure in a number of years – making it clear that oversupply is to blame for the 'oil recession'.^v Although our view has evolved over the past six months, our initial call here was clearly incorrect.

2016 Themes

As mentioned earlier, we continue to believe the US is amid the normalization phase of the economic cycle, meaning 2016 could end with the same outcome we saw in 2015 – volatility getting us nowhere. Keeping the past years playbook in mind, we believe some of our 2015 themes will continue into 2016 and some new themes will emerge as the US enters the last phase of an economic cycle, demonstrated by the chart below. We have modeled US real GDP growth at 2.45% in 2016 and 2.8% in 2017, followed by a mild recession in 2018 – *for the economy*. As in all recent years, the American consumer drives GDP^{11vi} and we expect the consumer to carry most economic growth in



¹⁰ Buffett, Icahn, & Einhorn all saw unrealized losses of 20% or greater. Soros & Slim saw greater than 10% losses

¹¹ Consumer spending makes up roughly 68% of US GDP

2016 as exports continue to be a drag. Increased cost savings, low unemployment, rising wages, and sub 2% inflation should continue to provide a decent year for the buyer. But, let us be clear: an economic cycle does not always mirror a market one.

Disclaimer: US GDP can be influenced by many factors and can change rapidly. Forecasts greater than 2 years out provide little value other than framing an economic cycle.

Continuing themes from the year prior:

Another mediocre year for US equities

As shown in our projection table from page 1, our base case for the S&P 500 is 2202, giving investors a 6% return for 2016¹². Our forecast is assuming earnings growth of 4% in 2016 and includes no multiple expansion, as we kept the forward multiple at 16.5. It appears that multiple expansion will be very hard to come by as businesses face margin pressure from rising wages, higher healthcare costs, and an increased interest expense¹³. Although we expect businesses to raise prices to contend with these headwinds (*without compromising demand*), we do not expect prices will increase enough to further expand margins. Therefore, a margin challenged environment does not favor multiple expansion.

Crowded/momentum trades slow down, notably consumer staples

As we noted a few times above, the disparity in the market last year was large with 5 stocks accounting for 4% of the S&P's return. This disparity in the index (known as 'breadth') is the highest recorded over the past 30 years, only rivaled by 1999.^{vii} History tells us that when everyone runs to one side of the ship, the ship doesn't usually stay afloat. Although this call did not play out in 2015, we have no reason to reverse our logic here. Momentum names ('FANG')¹⁴ are carrying 'perfect' valuations that do not present a favorable risk/reward skew. Crowded names, being most consumer staples as investors chase yield with the least amount of risk, are very rate sensitive, currency sensitive, and have weak earnings growth. As government yields creep toward parity with the dividend yield of these companies, these investors should shift their capital to the true 'risk-free' asset of government bonds¹⁵. We see no reason to change our underperform call on staples for 2016.

WTI crude oil stabilizes in between \$50-\$60 per barrel

Speculating where the oil price is going to be in a week, a month, or six months has proved very difficult. The market is overly crowded with speculators and headline sensitivities are extremely high. As we enter 2016, there are more short selling trades speculating a further decline in the price of oil than any time in history^{16, viii}. Neither our colleagues nor we can point to a positive catalyst for the energy markets in the next few months – which is part of the reason we are constructive in certain areas. We see \$35/barrel crude as pricing in the bear case, leaving a large upside potential. Although we were early with this call in mid-2015, we hold a high conviction that it will be proved accurate over the next 12-18 months. Here's why:

- 1) The price of a barrel of oil all around the world if priced in US dollars. As such, as shown in our regression analysis below, the price of oil and the

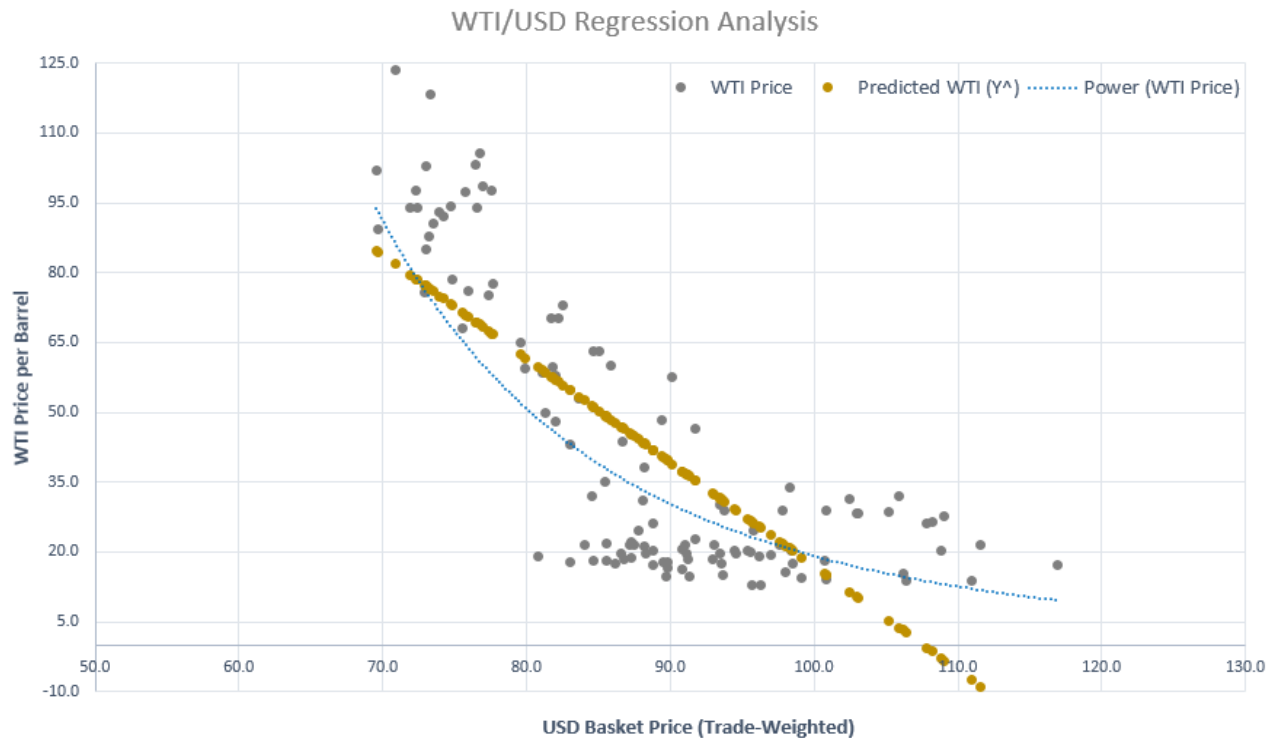
¹² Excluding dividends

¹³ Wage pressure coming from tight employment conditions, rising health costs may continue from ACA uncertainty, & interest rate pressure coming from Federal Reserve actions

¹⁴ Facebook, Amazon, Netflix, Google

¹⁵ This effect would be the opposite of the events of the past 4 years, when investors piled into 'blue chip' names in search of a yield greater than the US 10 year note

¹⁶ The combined WTI & Brent crude short position as of December 8 amounted to 364 million barrels



USD are related (.77 multiple R, .60 R^2). Based on this analysis using data from 1986 to the present, the value of WTI is predicted to be along the gold line against the trade-weighted price of the US dollar. If the value of the USD stabilizes at the current level or depreciates slightly (as history indicates will happen in a rising rate environment), our model shows that WTI will stabilize or appreciate in response. *Note: the current trade-weighted price of the USD is \$92.*

- 2) The supply & demand of the oil market operates on big lags. It takes more than a couple of weeks for changes in corporate strategy to effect output – i.e. a ‘V’ recovery is incredibly hard to come by if the problem is structural. **Future oil production is directly correlated to current oil investment.** This is important. Oil production does not have much to do with a rig count, company bankruptcies, or weekly inventory numbers. It has to do with the current dollars deployed to develop future projects. Many producers are currently producing oil that 2013/2014 investments have paid for – but total investment (capex) in 2015 declined more than 25% and will decline another 20% in 2016^{ix} – the largest ever decline in capex over two consecutive years. As mentioned, oil demand is not weak and will continue to grow with the world population and global GDP^x. The large capex cuts we are seeing now will translate into a decline in production later¹⁷ – overcorrecting the demand/supply imbalance that we see today.

Although we hold a high conviction of an oil recovery over the next 12-18 months, we still find it prudent to be very selective across the energy space. We only recommend

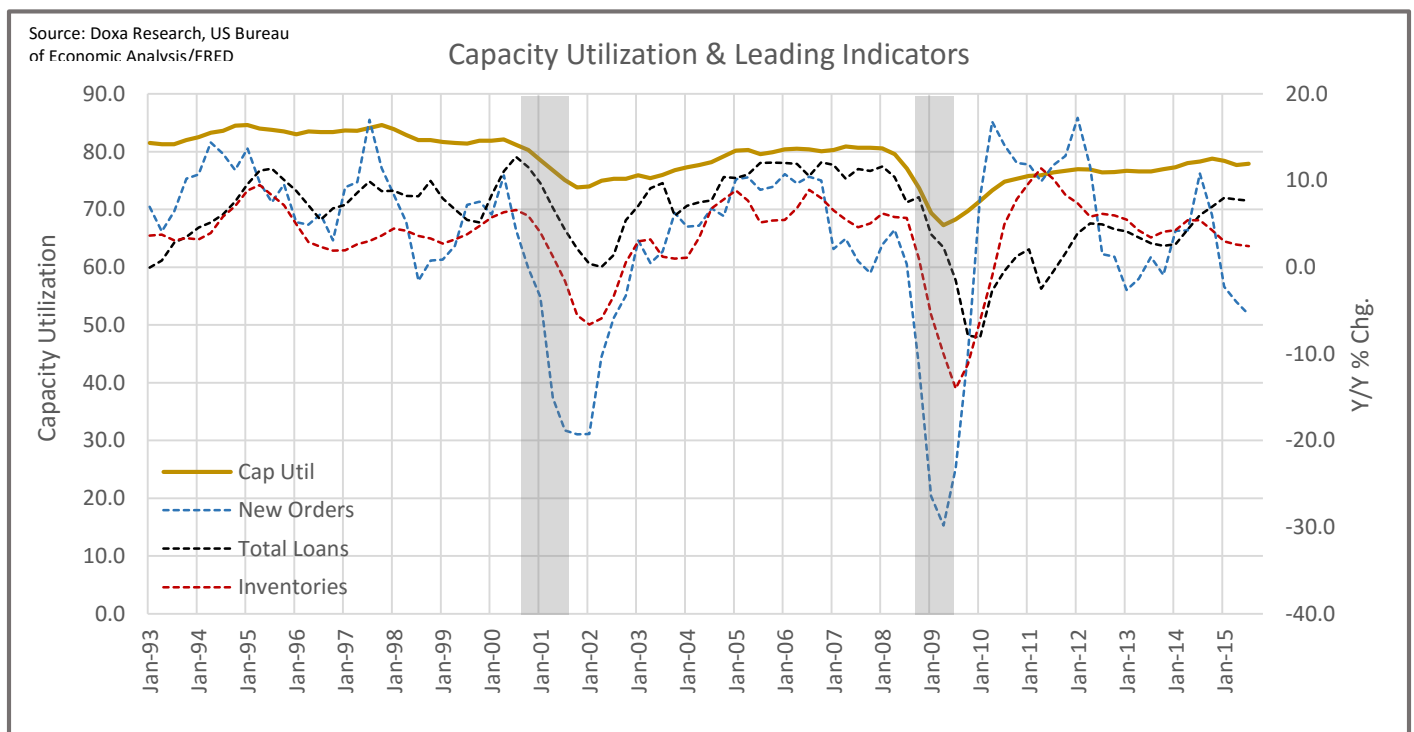
¹⁷ Current US production is near 10 million barrels per day

considering a composition of energy investments that include the ‘best of breed’ assets¹⁸ and a 3-year projected cash flow that can cover all outstanding debt, among other factors.

New themes for the year forward:

Value over growth

Some investors interpret the phrase ‘value over growth’ as ‘buy the cheapest relative asset’. To be clear, this is not what we mean. Many things that are cheap on a comparative basis are cheap for a reason, just as many things that are expensive are expensive for a reason. To us, ‘value over growth’ means favoring an asset with a differentiating factor of business, a growing marketplace, secular economic tailwinds, and is fundamentally mispriced by the market compared to intrinsic value¹⁹ (said another way, ‘slightly out of favor’). Our thought here is 1) crowded trades are very crowded, 2) short term market inefficiencies (excess volatility) create opportunity for the long term, and 3) our leading economic indicators display uncertainty, forcing us to shift our focus to longer term assets. As shown in the chart below, the current level of divergence in these leading indicators was also seen in 1998 and 2007 – both late cycle years.



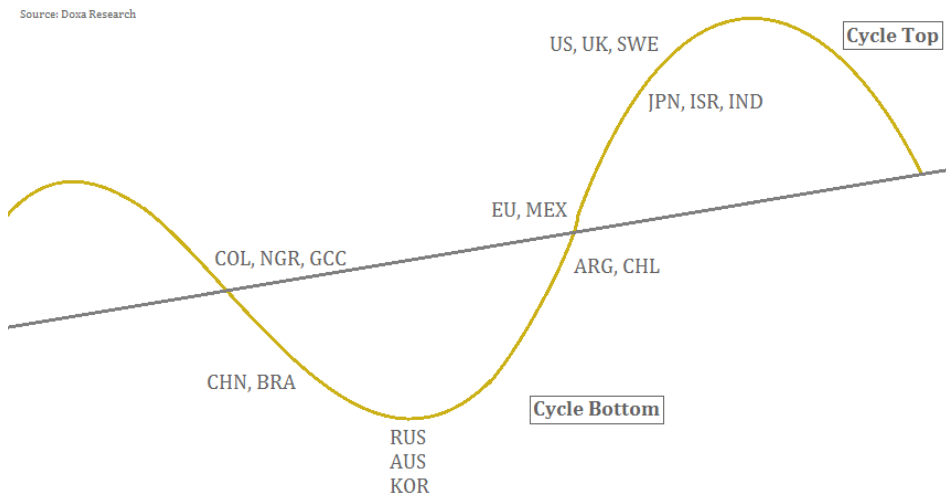
It is increasingly apparent that we are entering the last phase of the economic cycle (expansion) and the second phase of the much larger capital cycle (deployment).^{xi} We believe it is more advantageous to find value rather than to chase growth – shifting our focus to mispriced assets that we believe provide a very compelling long term opportunity.

¹⁸ Wellhead economics depend greatly on the quality of an asset (land) and transportation logistics

¹⁹ Intrinsic value is arbitrary based on independent analysis

Favor economies in the early/mid stage vs. late stage

We believe the global environment is demanding a shift from late stage assets (US, UK, China) to early/mid stage assets (EU, Mexico, Argentina). This is somewhat a continuing theme from last year, as we favored the EU over the US and disliked Japan and China. We still favor the EU and still dislike Japan and China, but we have added an 'intriguingly favorable' rating on certain emerging markets.



The elephant in the room here is the recent strength of the US dollar and central bank actions across the globe. First, we do not see the dollar appreciating much further. The 10% move upward last year²⁰ seems to have priced in multiple short term

interest rate hikes by the US Federal Reserve. Secondly, central banks around the world are nearing the peak of their monetary stimulus efforts (excluding China)²¹. The ECB has indicated they will be cautious to deploy additional accommodative measures, the Bank of England is following the US in monetary tightening, and the Bank of Japan has used all of their policy bullets – bringing us to believe that most major currencies around the world will hold relatively steady at current levels.

As we described in [‘The Variables’](#) at the beginning of December, trade and capital will adjust accordingly as currencies stabilize²². In Mexico, a cheap peso will create a surge in exports since their goods are cheap. The Eurozone will see the same effect as the USD/EU stabilizes around \$1.10. Argentina will benefit from a new pro-business government allowing free global trade and access to world capital markets. The Japanese should also benefit from a weaker Yen, but still battle large cultural and structural headwinds – leading to the largest stimulus a government has ever attempted and leaving the economy running on faith that it will work (creating a ‘house of cards’ type risk not worth a mediocre return).^{xii} Lastly, China got ahead of itself during the transition to an ‘open door’ economy and Brazil was too ambitious about hosting the world’s biggest events (2014 World Cup, 2016 Olympics). Overall, we hold a favorable position for the Eurozone, a slightly less favorable position on the US, and an unfavorable position on Japan and China – but what does ‘intriguingly favorable’ mean? We admit that we may be early to the boat for an EM turnaround, but certain cases not completely exposed to the commodity deck look very attractive for long term investments.

²⁰ Compared to a basket of currencies

²¹ Developed countries have exhausted most traditional and untraditional levers, while EM’s have depleted reserves trying to hold up their respective currencies.

²² Currency and trade patterns do not adjust until some certainty exists within the markets

The 2016 Election

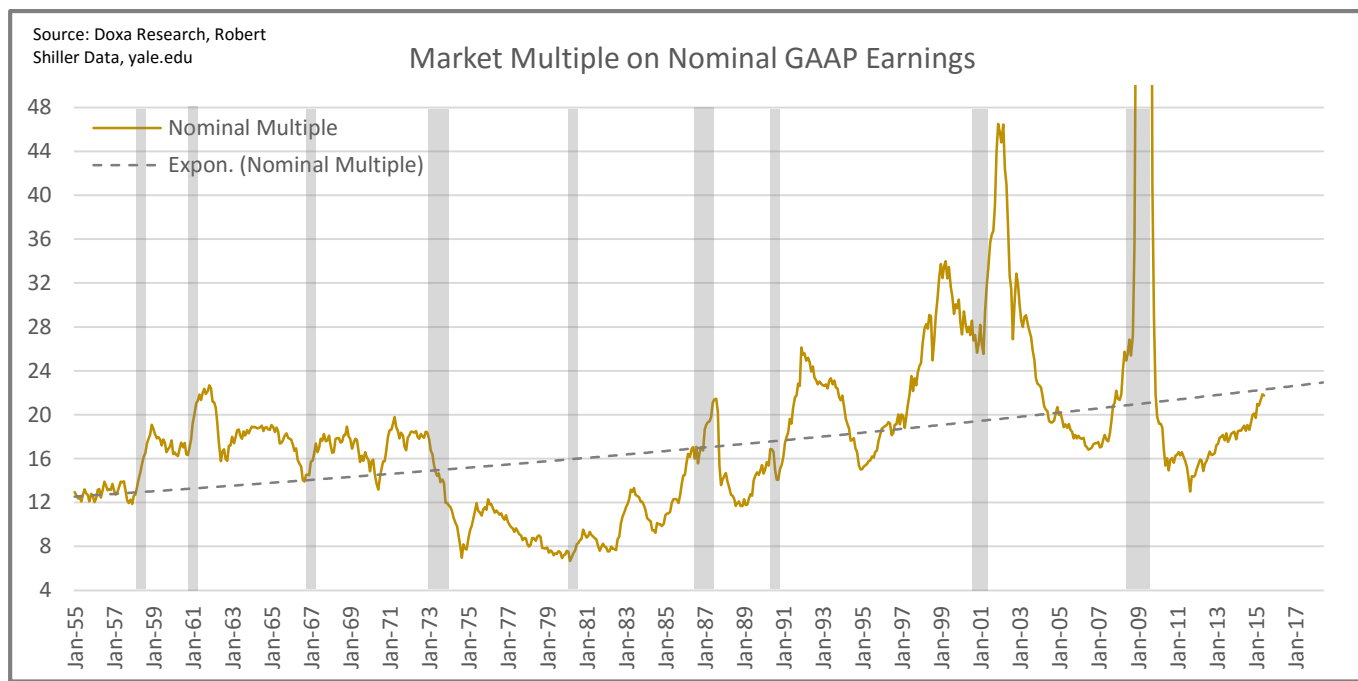
Politics. Today known as the antithesis of logic. 2015 was the year democrats argued that America needs to “go after Wall Street”, when Goldman Sachs was trading at book value, and the GOP fought for increased southern border protection when net migration from Mexico was negative.^{xiii} As the year rolls forward, we all will be inundated with more ads, headlines, and debates trying mightily to convince an American individual that they think exactly like a certain candidate thinks. Regardless of the opinion one holds for the candidates or the process, elections *can* influence markets, primarily because of the hope (or lack of hope) generated by a potential next leader of the executive branch.

Although political rhetoric, such as prescription drug price caps, tax reform, and healthcare appeal, among others, can spark debate and move markets for a week, research has shown that past election years *haven't* made a difference. Absent recessions, election years have seen an average return of 9.1% versus 8.8% for all years going back to 1960 (14 elections).^{xiv} Armed with this research from Deutsche Bank, our theme about the 2016 Election is that there shouldn't be a theme – we must look through most of the political headlines, but not ignore them. Although election years have no bearing on the market, politics do – especially when it comes to fiscal policy – like corporate tax reform.

Market Valuation

Note: this portion of the note is slightly more technical than the rest.

As we always note, valuation is everything. A great thesis can be overcome by a bad price, and a decent thesis can be overcome by a great price. We closed 2015 with a 17.25 P/E ratio and a 16.5 forward P/E ratio – slightly lower from a year ago as earnings grew an estimated 2%²³ - the slow growth largely attributed to the energy collapse and a strong US dollar.



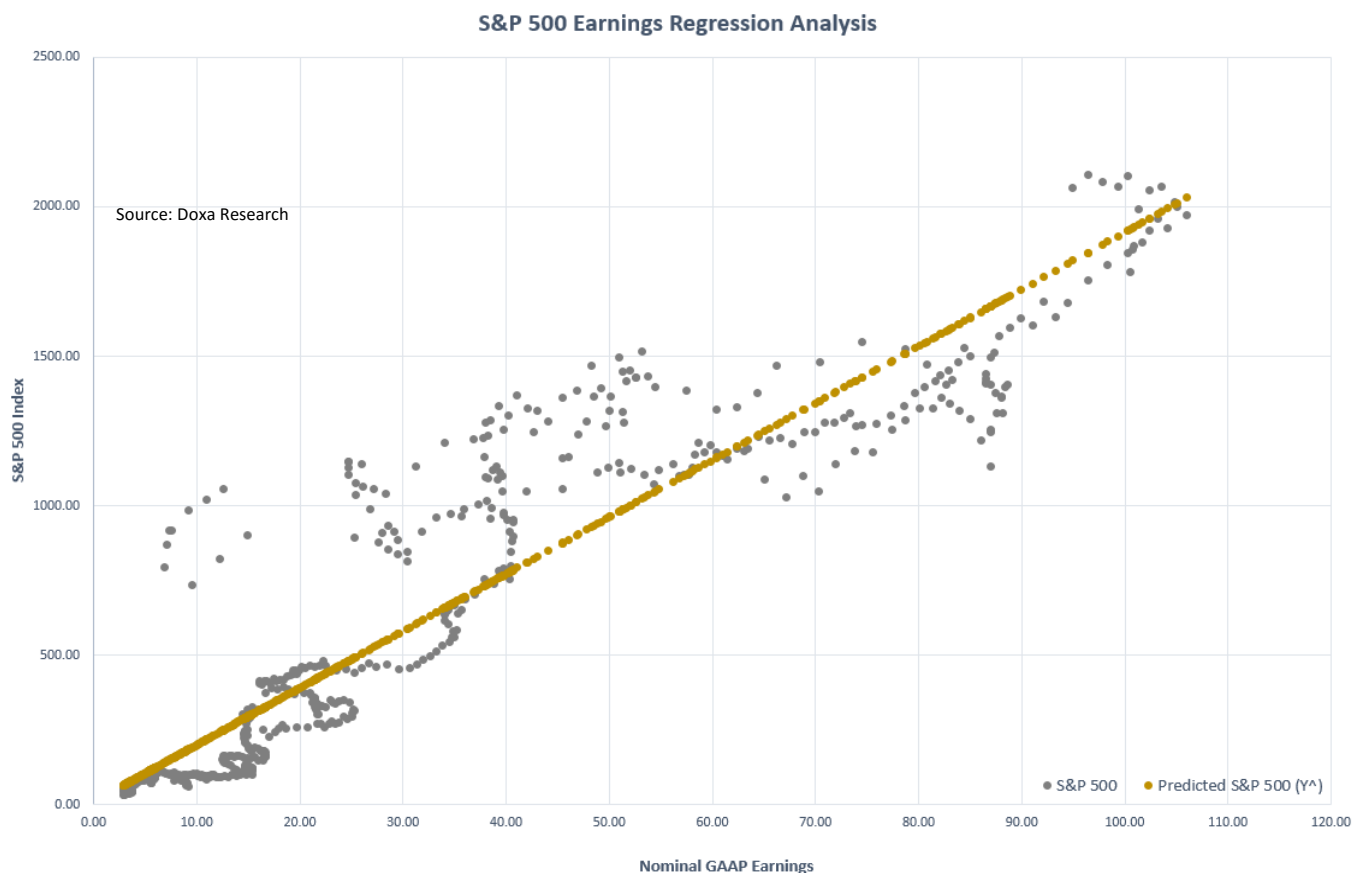
²³ Using the S&P 500 and adjusted earnings

Multiples

The biggest unknown of a multiple is “what is normal?” and “does normal change constantly?” A multiple by definition is what an investor would pay for an asset today to acquire the cash flows of that asset in the future. Over past decades, we believe it is sensible to assume that an investor would pay more today for an asset’s cash flows than in 1940 – margins are higher and less capital is used, more market participants exist, liquidity and real-time information is prevalent, and overall growth per market participant is lower. We agree with the argument that current ratios are slightly high compared to the 10 average by ~2 points²⁴, but we prefer to use an exponential trendline of CAPE ratios^{25xv} over the past 60 years to determine a more accurate picture of ‘normal’. This data is shown above and demonstrates that the S&P 500 multiple is closer to ‘fair value’ than ‘overvalued’ (trendline is the grey dotted line).

Earnings

As shown in the chart on the first page, we expect earnings growth of 4% next year and 6.5% the year following²⁶. This growth encompasses a stabilized commodity desk and USD, higher wage and healthcare costs, and interest rate risk – all of which effect margins. Net margins for the S&P 500 fell off its high of 10.5% early in the year to end around 10.2%,^{xvi} driving the argument that peak margins have occurred – implying earnings weakness on the horizon. As mentioned in a prior note, we believe margins will stay elevated for some time because of an increasing composition of tech companies within the market and the increased financial efficiency companies have embraced since



²⁴ Based on current Factset estimates

²⁵ Cyclically adjusted price to earnings

²⁶ Adjusted earnings projections

2008. In fact, Apple has made up 20% of the margins expansion of the S&P 500 over the past five years, the tech sector making up 50%.^{xvii} With that said, we do believe that the above factors will slow down, if not halt, margin expansion around 10.5% – meaning our 4% growth projection is relatively all demand driven.

Over the long term, market prices should generally grow with corporate earnings (multiple expansion/contraction influences the short term). Our regression analysis between nominal GAAP earnings and the S&P 500 proves this, showing a strong relationship by a .87 R² and a .93 Multiple R. This analysis, shown above using cumulative quarterly data from 1955, gives us a very accurate picture of what we believe is ‘intrinsic’ value of the S&P 500 based on GAAP corporate earnings. 2015 GAAP earnings were close to \$100²⁷, meaning we are slightly overvalued using the graph below – the same conclusion as our multiple analysis.

Overall, valuation does not look stretched at current levels – but very fair – a textbook case during a normalization period. We do not see the recent volatility ending as this period of the economic cycle continues, and we recommend using the short term market inefficiencies to find long term ‘value’ – *said another way, invest in companies that are **fundamentally** mispriced*. Although we are less constructive on the US financial markets than we were last year, we still have optimism about select cohorts of the economy. We are also slightly less positive on the world markets versus our tone last year, but more excited about some long term opportunities being presented. Normalization creates volatility. Volatility creates opportunity. Opportunity requires patience.

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Director of Research

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²⁷ According to Factset estimates

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IMPORTANT INFORMATION

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ECONOMIC INDICATORS AND FINANCIAL DEFINITIONS

Inflation – The Consumer Price Index (CPI) NSA (non-seasonally adjusted) measures changes in the price level of a market basket of consumer goods and services purchased by households. This indicator value represents the trailing year over year % change in the CPI index as of last month-end.

GDP / Economic Expansion – GDP (Gross Domestic Product) measures the total market value of a nation's output of goods and services during a specific time period. It is usually measured on a quarterly basis. Current GDP is based on the current prices of the period being measured. Nominal GDP growth refers to GDP growth in nominal prices (unadjusted for price changes). Real GDP growth refers to GDP growth adjusted for price changes. Calculating Real GDP growth allows economists to determine if production increased or decreased, regardless of changes in the purchasing power of the currency.

Recession - A period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters.

Market Volatility (VIX) –CBOE VIX (Chicago Board Options Exchange Volatility Index) measures annualized implied volatility as conveyed by S&P 500 stock index option prices and is quoted in percentage points per annum. For instance, a VIX value of 15 represents an annualized implied volatility of 15% over the next 30 day period. The VIX measures implied volatility, which is a barometer of investor sentiment and market risk.

Aggregate Demand - In macroeconomics, aggregate demand (AD) or domestic final demand (DFD) is the total demand for final goods and services in an economy at a given time. It specifies the amounts of goods and services that will be purchased at all possible price levels.

Aggregate Supply - In economics, aggregate supply (AS) or domestic final supply (DFS) is the total supply of goods and services that firms in a national economy plan on selling during a specific time period. It is the total amount of goods and services that firms are willing and able to sell at a given price level in an economy.

Monetary Stimulus - an attempt to use monetary or fiscal policy to stimulate the economy by lowering interest rates and/or quantitative easing.

Policy Normalization - Specifically, monetary *policy normalization* refers to steps to raise the federal funds rate and other short-term interest rates to more normal levels and to reduce the size of the Federal Reserve's securities holdings and to return them mostly to Treasury securities, so as to promote the Federal Reserve's statutory mandate set by Congress.

Developed Economy – countries with high gross domestic product (GDP) per capita and industrialization; countries in which the tertiary and quaternary sectors of industry dominate would thus be described as developed.

Emerging Economy - progressing toward becoming more advanced, usually by means of rapid growth and industrialization. These countries experience an expanding role both in the world economy and on the political frontier.

Productivity - the effectiveness of productive effort, especially in industry, as measured in terms of the rate of output per unit of input.

Short Term Rate / Discount Rate - the interest rate that large banks use to borrow and lend from one another in the overnight market.

Monetary Policy - the process by which the monetary authority of a country controls the supply of money, often targeting an inflation rate or interest rate to ensure price stability and general trust in the currency.

Economic Multiplier – an effect that refers to the increase in final income arising from any new injection of spending.

Currency Peg – an exchange regime where a currency's value is fixed against either the value of another single currency, to a basket of other currencies, or to another measure of value.

Yield - The yield of a bond is inverse to its price: as bond prices increase, bond yields fall. For example, assume that an investor purchases a bond with a 10% annual coupon and a par value of \$1,000. The yield on this bond would be its par value divided by the interest it pays.

Expected Return - the value of a random variable one could expect if the process of finding the random variable could be repeated an infinite number of times. Formally, it gives the measure of the center of the distribution of the variable.

Unemployment – The Bureau of Labor Statistics measures employment and unemployment of all persons over the age of 15 using two different labor force surveys conducted by the United States Census Bureau (within the United States Department of Commerce) and the Bureau of Labor Statistics (within the United States Department of Labor) that gather employment statistics monthly. The data reported here is seasonally adjusted (SA) to account for seasonal gains in employment leading up to Christmas.

The S&P 500® Index - is a free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. The stocks included in the S&P 500® are those of large publicly held companies that trade on either of the two largest American stock market exchanges: the New York Stock Exchange and the NASDAQ.

Capital Expenditures (Capex) - A capital expenditure is incurred when a business spends money either to buy fixed assets or to add to the value of an existing fixed asset with a useful life extending beyond the taxable year.

Multiple / Price to Earnings Ratio (P/E) - a ratio for valuing a company that measures its current share price relative to its per-share earnings.

Commodities – a raw material or primary agricultural product that can be bought and sold, such as copper or coffee.

Quantitative Easing - is a type of monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective.

Structural - of or relating to the arrangement of and relations between the parts or elements of a complex whole.

Cyclical - occurring in cycles; recurrent.

Profit Margin / Net Margin - the percentage of revenue left after all expenses have been deducted from sales. The measurement reveals the amount of profit that a business can extract from its total sales. The net sales part of the equation is gross sales minus all sales deductions, such as sales allowances.

Market Capitalization - the total money market value of the shares outstanding of a publicly traded company; it is equal to the share price times the number of shares outstanding.

Capacity Utilization - the extent to which an enterprise or a nation actually uses its installed productive capacity.

Organization of Petroleum Exporting Countries (OPEC) - An organization consisting of the world's major oil-exporting nations. The Organization of Petroleum Exporting Countries (OPEC) was founded in 1960 to coordinate the petroleum policies of its members, and to provide member states with technical and economic aid.

High-Yield Bond - A high paying bond with a lower credit rating than investment-grade corporate bonds, Treasury bonds and municipal bonds.

The Dow Jones Industrial Average - a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

Russell 2000 Index - An index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks.

Nikkei 225 - a price-weighted equity index, which consists of 225 stocks in the 1st section of the Tokyo Stock Exchange.

SSE Composite Index (abbreviated Chinese: 上证综指) - a stock market index of all stocks (A shares & B shares) that are traded at the Shanghai Stock Exchange.

Hang Seng Index (abbreviated Chinese: 恒生指數) - a free float-adjusted market capitalization-weighted stock market index in Hong Kong.

Corporate profit - also called net income, the amount remaining after all costs, depreciation, interest, taxes, and other expenses have been deducted from total sales.

Liquidity - the degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price.

Wages - monetary compensation (or remuneration, personnel expenses, labor) paid by an employer to an employee in exchange for work done.

Market Breadth - a technique used in technical analysis that attempts to gauge the direction of the overall market by analyzing the number of companies advancing relative to the number declining.

West Texas Intermediate (WTI) - also known as Texas light sweet, a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.

Multiple R - the coefficient of multiple correlation, denoted R, is a scalar that is defined as the Pearson correlation coefficient between the predicted and the actual values of the dependent variable in a linear regression model that includes an intercept.

R-squared (R^2) - a statistical measure of how close the data are to the fitted regression line. It is also known as the coefficient of determination, or the coefficient of multiple determination for multiple regression.

ISM Manufacturing Index - monitors employment, production inventories, new orders and supplier deliveries.

Cyclically Adjusted Price-to-Earnings Ratio (CAPE) – also known as Shiller P/E, or P/E 10 ratio, a valuation measure usually applied to the US S&P 500 equity market.

Intrinsic value - refers to the value of a company, stock, currency or product determined through fundamental analysis without reference to its market value.

Trendline - line indicating the general course or tendency of something, e.g., a geographical feature or a set of points on a graph.

Generally Accepted Accounting Principles (GAAP) - a framework of accounting standards, rules and procedures defined by the professional accounting industry, which has been adopted by nearly all publicly traded U.S. companies.

PMI Index - based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.