

**COMMENTARY FROM THE INVESTMENT COMMITTEE
OF CORAL GABLES TRUST COMPANY**

Q4 2015 –THE RALLY THAT WASN'T

After a tumultuous third quarter, the fourth quarter got off to a strong start in October as the market rallied hard off the lows from August. However, the party was short lived as November and December proved uneventful for the markets. The anticipated build-up to the Federal Reserve rate hike resulted in little commitment from investors heading into year-end. The December Fed announcement was met with little reaction as the markets have been pricing in such action for months. The S&P 500 finished +7.04% for the quarter with the bulk of the gains coming in October. If it wasn't for dividends, the S&P 500 would have finished negative for the year, but managed to finish with a total return of +1.38%. Digging deeper into the S&P 500, market breadth was the weakest in years. The top 10 contributors to the S&P 500 in 2015 posted an average return of approximately 42%, while the remaining constituents had a negative average return of -0.53%. Not owning a majority of the top 10 performers in the index caused some active managers to underperform for the year. It is also worth pointing out that the performance dispersion between growth and value was nearly 9.5% causing value managers to underperform on the year vs. their growth counterparts. Overseas markets were under more pressure than the U.S. due to the continued fall in commodities and global growth concerns. The MSCI EAFE index finished the year down -0.80% while the MSCI Emerging Markets index returned a negative -14% due to currency pressures. On the economic front, the U.S. continues to be the best house in a rough neighborhood growing at a modest 2% to 2.5% pace. Housing and the services sector remain robust while the manufacturing sector and corporate earnings are starting to trend south thanks to the stronger U.S. dollar. Consumers can be thankful for oil prices in the \$30/barrel range, but the effects are evident in every investment related to energy particularly when it comes to MLPs. Select fixed income investments did well in 2015 particularly municipal bonds. Municipal bonds tend to trade off supply and demand more than the fundamentals of the yield curve. High-yield fixed income struggled during the year as energy credit sold off causing spreads to widen. The Barclays U.S. Corp High Yield Index fell -4.47% on the year.

DOMINANT THEMES FOR 2016

As we write, January finished on a down note as worry over global growth took center stage. Chinese concerns continue to be the dominant theme as uncertainty remains regarding their currency direction and economy. It didn't take long for the broad market to dip its toes into correction territory as recession fears built up fast on the back of global growth concerns. In its November meeting, the Trust Investment Committee (TIC) discussed several themes that are believed to be dominant for asset allocation policy in 2016. We believe China,

earnings, the U.S. dollar, commodities, Fed policy and style preferences will drive performance in some shape or form in 2016. Earnings have been fairly in line with expectations although top and bottom line guidance is weak looking ahead. Revenues have also been challenged due to the strength of the U.S. dollar. Excluding energy and materials, earnings do improve substantially but it might not be enough to avoid a third consecutive quarter of year over year negative earnings growth. Oil seems to have found a temporary bottom around \$30/barrel but remains hostage to overwhelming supply. Central bank divergence is in full force as the European Union recently signaled additional accommodation as early as March 2016. Japan, for the first time ever, set its deposit rate into negative territory hoping to jump start their economy as Abenomics hasn't provided the economic boost that was initially expected. Expectations for additional interest rate hikes in the U.S. are being pushed farther out due to market uncertainty. Given all the factors noted above, the markets will need to find clarity in each of these issues before equity markets can resume an upward trajectory.

2016 ASSET ALLOCATION

Our TIC meeting in December was dedicated primarily to asset allocation positioning for 2016. The consensus belief among the members was one of continued volatility and market returns that will remain challenged due to the driving themes mentioned above. In response, we voted to reduce equity exposure by 5% in our blended asset allocations of Growth with Income, Balanced and Income with Growth. The 5% difference was added to fixed income. After the adjustment our balanced portfolio now targets 50% equity, 45% fixed income and 5% cash. Fixed income should perform better in a sluggish global economy and in an interest rate environment that continues to trend lower. We are global asset allocators and believe in globally diversified portfolios. However, we elected to reduce our international equity weight by 5% in favor of U.S. large cap. Over the next three to five years we continue to be favorable on high quality international exposure due to better valuations and accommodative monetary policies. The medium-term, however, will be driven by the global news flow causing fundamentals to take a back seat. In hindsight our asset allocation adjustments have served us well so far in 2016. Equity markets are well off their high while fixed income has held its ground thus far. We took our policy a step further into conservative territory by recently eliminating our MLP allocation in favor of a higher than normal cash position as we monitor the situation over the coming weeks. The financial media makes a living trying to predict market tops and bottoms. There is no shortage of "experts" giving their opinion on recent events and what might happen. We remain strategic asset allocators focused on the long-term with a process geared towards downside protection within our investment manager selection.

We look forward to speaking with all of our clients regarding our views and the performance of their respective portfolios, and we thank you for your continued confidence in our team and our firm. For additional information or questions, please contact Mason Williams, CIO, at 786-497-1214, or mwilliams@cgtrust.com.