KPF GLOBAL INVESTMENT STRATEGIES LLC

Quarterly Market Outlook & Strategy Letter

Fourth Quarter of 2015

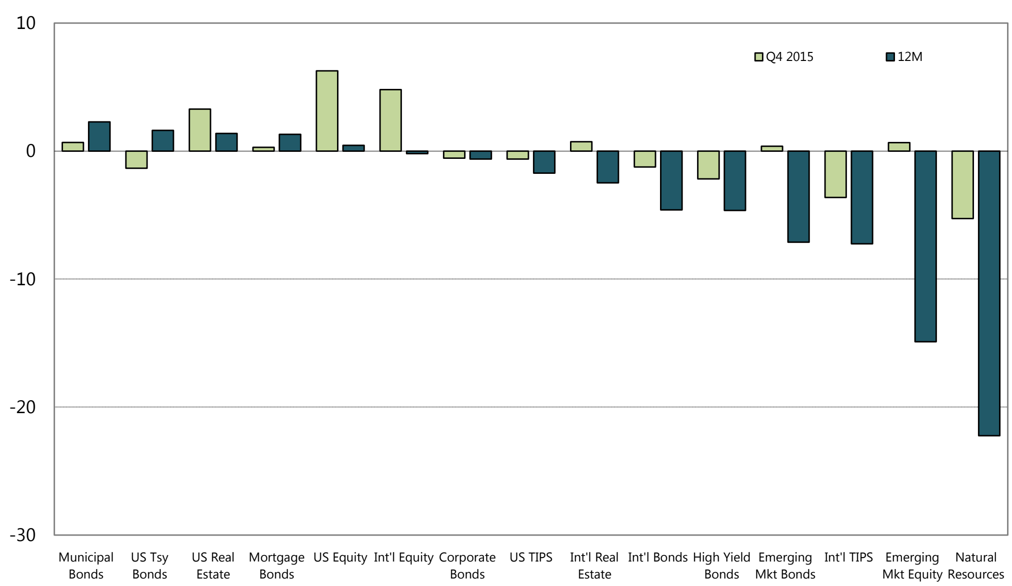
January 2016

In preparing each quarter's letter, we review the messages contained in these pages over the prior year. Relative to our October letter to clients, there's not much to add. Although a great deal has happened, little, fundamentally, has changed. Valuations in many asset classes (especially in the US) remain elevated. Economic fundamentals continue to deteriorate. Liquidity is scarce, with investor positioning skewed toward "one side of the boat." Market volatility is on the rise.

The events now unfolding in the global economy have been foreshadowed by numerous warning signs, many of them described in our earlier letters. Specifically:

- Commodity prices have collapsed as a result of a worldwide slowdown in demand
- The global manufacturing sector has fallen into a sharp contraction
- International trade is shrinking, prompting destabilizing currency devaluations
- Earnings growth has turned negative as a result of the strong US$ and weak productivity
- The decline in oil prices has hurt more than helped the US economy
- US households are spending less, given the rising cost of housing and health care, excessive debt, and insufficient retirement savings
- Weak spending, against massive inventories, signals heightened recession risk
- Central banks have suffered a serious loss of credibility & effectiveness
- Investors are increasingly concerned about market valuations relative to fundamentals
- Rising risk aversion, coupled with excessive leverage, has elevated market volatility
- The events of August offered a taste of risks to come

Figure 1. Benchmark Asset Class Returns



Source: Bloomberg

2015 has been described as the year that "nothing worked" in markets. But that's not quite true. Cash worked, rising in value against many other asset classes (Figure 1). Since late spring, cash has been our single largest investment position, as we await better opportunities in other market segments.

Beyond its role as a psychological buffer against market volatility, cash preserves a portfolio's purchasing power when risks are high, enabling its holder to allocate funds, to investments that offer the prospect of a high long-term return, when others are desperately in search of liquidity. The most likely candidates for such investments will be in distressed credit, commodities, and foreign-currency denominated assets, and we expect these opportunities to emerge before the end of 2016..

"I don't get it. First you can't sleep because you're not in the market and now you can't sleep because you are."