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1Q2015

Despite increased volatility during the quarter, most U.S. indices were essentially flat for the period. The Dow was down -0.3% and the S&P 500 was up 0.4%. Both the Dow and the S&P 500 hit record highs on March 2, but then rolled over. The S&P had the most 1% moves, both up and down, since the second quarter of 2012, and the Dow had the most 1% swings since the fourth quarter of 2011. Foreign markets performed much better as they rebounded from the large declines over the past several years. The German Dax was up 22% and the Nikkei rose 10%. The index that performed the best in the U.S. was the Russell 2000 with a 4.0% return. Smaller companies typically have domestic customers, so they weren't as impacted by the strong dollar like large multinational corporations.

We expect this same pattern to continue over the next several quarters as the strong dollar hurts earnings and weak oil helps the consumer as well as economies around the world that import oil like Japan. The Eurozone PMI hit a ten month high in March, and the ECB launched a new round of stimulus in March driving the yield on the ten year German Bund to 0.16%. These low yields around the world make our ten year Treasury yield of 1.85% look very attractive. In addition to weakness in earnings caused by the strong dollar, U.S. earnings are expected to be hit by falling capital expenditures due to the 56% decline in the price of oil. Capital expenditures hit a new record of $730 billion in 2014, and a large part of that was due to the energy sector. Most strategists expect the energy sector to slash capex in 2015.

In addition to the strong dollar and falling oil prices, the market also reacted strongly to perceptions about where the Federal Reserve is heading on a tightening cycle. It was widely expected that the Fed would start to gradually increase interest rates in June, but this time frame has now been moved back due to Chairman Yellen's testimony to Congress in February. While she noted that employment trends are better, there is still slack in the labor force participation rate. Falling oil prices have kept inflation low, and global growth rates are still a concern to the Fed, so the "Committee judges that a high degree of policy accommodation remains appropriate". She also noted that:

> It continues to be the FOMC's assessment that even after employment and inflation are near levels consistent with our dual mandate, economic conditions may, for some time, warrant keeping the federal funds rate below levels the Committee views as normal in the longer run.

This outlook for continued low interest rates sparked a strong rally in the S&P and the Dow which then dissipated in March.

The best performing sectors during the quarter were consumer cyclicals, consumer staples, and healthcare. The consumer is benefiting from lower energy prices, and healthcare has all the ACA spending tailwinds behind it. We would like to see the other sectors begin to show earnings improvement after adjusting to the strong dollar in order for the overall market to begin to show progress. The presidential election cycle has already kicked off, and this could also impact the market as participants handicap the various candidates on both sides. Thank you for your continued confidence, and we look forward to speaking to you in person or over the phone if that is more convenient.

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