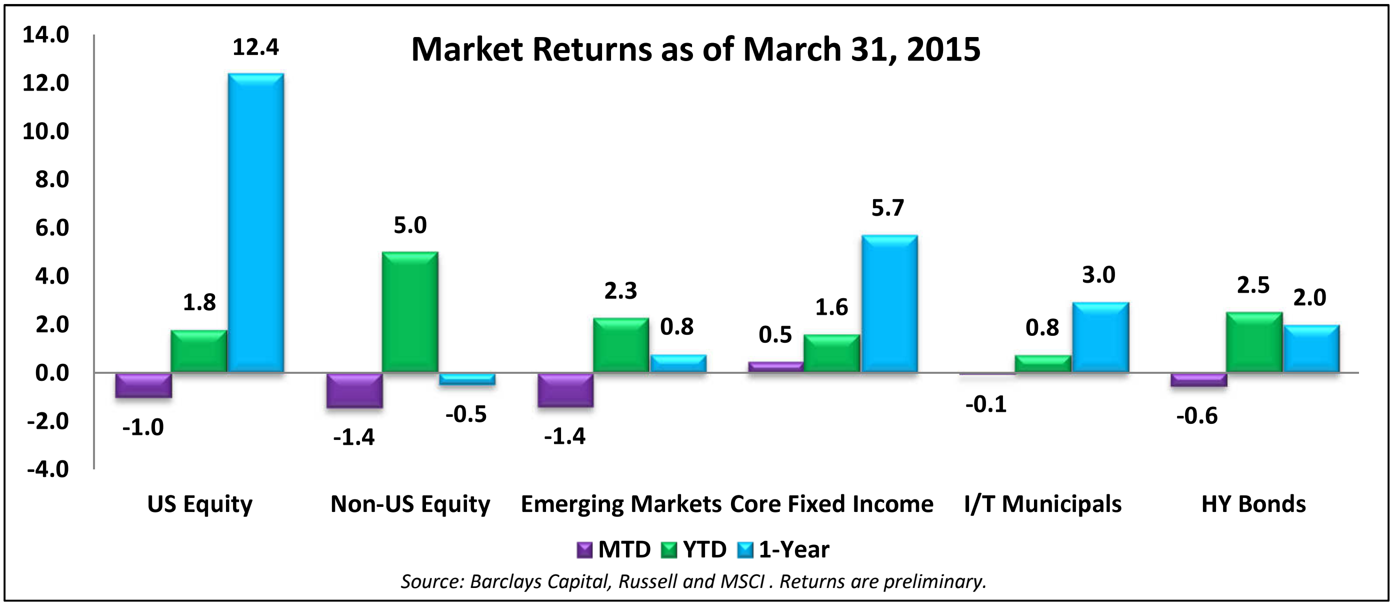
CAPITAL MARKETS RECAP

MARCH 2015



U.S. equities declined in March after rebounding strongly in February. International developed and emerging market equities declined more than U.S. equities in March, but remained ahead on a year-to-date basis. Broad U.S. bond market edged out a positive return in March, as interest rates declined. Municipal bonds posted a slight decline due primarily to technical factors. High yield bonds declined along with stock market returns, as risk appetite retreated.

Economic Data

- The third and final estimate for fourth quarter 2014 real GDP remained unchanged at 2.2%. Growth was lower than the 5.0% reported in the third quarter largely due to increased imports and a decline in governmental and capital spending.
- The U.S. unemployment rate declined to 5.5% in February from 5.7% in January, and meaningfully lower than the 6.7% rate reported one year ago. The U.S. added 295,000 jobs in February with the biggest job gains coming from food and beverage services and professional and business services.
- Inflation increased 0.2% in February after declining for 3 months in a row. The 12-month Consumer Price Index was flat at 0%. Despite lower headline inflation, core inflation (all items less food and energy) remained stable with the 12-month change at 1.7% in February and has stayed in a range between 1.6% and 2.3% since June 2011.
- Consumer confidence rebounded in March after declining in February. Consumers were more optimistic on the short-term outlook for employment and the prospects for higher income.
- Global manufacturing sector growth remained in expansion territory in March. U.S. manufacturing growth expanded due to improving domestic economic conditions, despite lower exports. Overall growth improved in the Eurozone driven by countries such as Ireland, Spain, and Germany, however, contractions persisted in France and Greece. Companies in the Eurozone reported the weaker euro as the main contributor to the increase in new export orders. Manufacturing growth declined in Japan due to higher costs for raw materials. China fell back into contraction territory as domestic and foreign demand remained subdued.

U.S. Equities

- The U.S. stock market declined in March after experiencing robust returns in February.
- Size – Small caps outperformed large and mid caps for the month and the year. The Russell 2000 (U.S. small cap index) was up 1.7% for the month and 4.3% on a year-to-date basis.
- Growth stocks continued to outperform value stocks for the month and the year. On a year-to-date basis, the Russell 3000 Growth index was up 4.1% versus Russell 3000 Value index, which was down 0.5%.
- All S&P 500 sectors, except for healthcare, declined in the month of March. The healthcare sector was aided by strong returns in the Biotech sector:

Best		Worst	
Heath Care	0.88%	Materials	-4.73%
Consumer Discretionary	-0.47%	Telecommunications	-3.66%
Financials	-0.61%	Information Technology	-3.30%

International Equities

- The U.S. dollar continued to strengthen during the month, negatively impacting developed international equity returns. In local terms, the MSCI EAFE index was up 1.4%, but U.S. based investors experienced a decline of 1.4%, a difference of negative 2.8%. However, on a year-to-date basis, developed international equities are outperforming U.S. equities both in local and U.S. dollar terms.
- Emerging market equities performed in a similar vein in March (up 0.2% in local terms, but down 1.4% in U.S. dollar terms).

Fixed Income

- Broad U.S. bond market reported positive performance in March due to declining interest rates (interest rates and bond prices move inversely). The 10-year U.S. Treasury yield declined 0.1%, ending the month at 1.8%.
- Municipal bonds declined during the month due primarily to technical factors (supply outpaced demand).
- Consistent with a declining stock market, high yield bonds posted negative performance in March.

Looking Ahead

- Markets have been clearly focused on the Federal Reserve Bank (Fed) and timing of the first interest rate increase, commonly known as the “lift off date”. As expected, the Fed removed the word “patient” from their statement on March 18th. On that day, Chair, Janet Yellen, stated that “…just because we removed the word ‘patient’ from the statement doesn’t mean we are going to be impatient.”
- Historically, markets initially react unfavorably to Fed interest rate increases, but nerves tend to calm down over time. Further, higher rates should boost consumer interest income by more than consumer interest expense, as household bank deposit accounts far exceed consumer debt. Additionally, of the $14.2T in consumer debt, according to J.P. Morgan, at least 59% is at fixed rate.
- Investors should keep in mind that interest rate increases are due to an improving economy, not an attempt to slow an overheated economy. As the Fed charts the path toward interest rate normalization (i.e. above zero rates), there will likely be bumps along the road.

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