Economic Review

The Fed is no longer "patient"—having dropped the much-followed word from its most recent Federal Open Market Committee statement. This move opens the door to raising interest rates as early as the next meeting in April, although many Fed watchers expect that a move won't come until the second half of the year due in part to the stronger dollar and weaker economic data.

Real gross domestic product grew at a 2.2% annual rate in the fourth quarter, according to the Bureau of Economic Analysis. The annual GDP growth rate, by comparison, was 5.0% in the third quarter of 2014.

The U.S. Bureau of Labor Statistics reported that the unemployment rate edged down to 5.5% in February, and the number of unemployed persons fell to 8.7 million. The number of long-term unemployed (those jobless for 27 weeks or more) accounted for 31.1% of the unemployed. The civilian labor force participation rate, at 62.8%, has been essentially unchanged since April 2014.

Although the U.S. manufacturing sector remains in expansion, the Institute for Supply Management's Purchasing Managers Index fell for the fifth consecutive month in March, and is at its lowest level since May 2013. Issues affecting activity include a harsh winter, higher healthcare premiums, and a stronger dollar—making U.S. goods more costly for overseas buyers.

Sales of existing homes rose a modest 1.2% in February, but constrained inventory levels pushed price growth to its fastest pace in a year, according to the National Association of Realtors. Sales are 4.7% higher than a year ago, and above year-over-year totals for the fifth consecutive month.

Consumer optimism reached a 10-year peak in the first quarter—its highest level since the third quarter of 2004. Although confidence has eased back slightly, due to a harsh winter and a small rebound in gas prices, expanding job opportunities and favorable wage gains point to a rebound in consumer spending during the balance of the year, according to the latest Thomson Reuters/University of Michigan Surveys of Consumers.

Financial Markets Review: Domestic Stock Market

After reaching a new high in early March, the Dow Jones Industrial Average ended the first quarter of the new year in the red, down 0.26% to 17,776.12. The S&P 500 eked out a 0.44% gain (ex-dividends) to 2,067.89, and the NASDAQ moved 3.48% higher to 4,900.88.

Among the 10 sectors in the S&P 500, healthcare led the quarter with a 6.53% gain, followed by consumer discretionary advancing 4.80%, and telecommunications services returning 1.54%. Lagging sectors were utilities (falling 5.17%), energy (sliding 2.85%), and financials (losing 2.05%).

Mid- and small-cap stocks pulled away from large-caps in the first quarter, with the S&P Midcap 400 Index jumping 5.31% and the S&P SmallCap 600 Index adding 3.96%.

With respect to style, growth outperformed value for both large- and small-cap stocks for the three-month period.

The top-performing stocks in the Dow Jones Industrial Average for the first quarter included United Health Group (+17.0%), Boeing (+15.5%), and Apple (+12.7%), which replaced AT&T as a Dow component during the quarter. Stocks detracting from the Dow's performance included American Express (-16.0%), Intel (-13.8%), and Caterpillar (-12.6%).

Leaders for the quarter among the Dow Jones U.S. industry groups included consumer electronics (+20.2%), renewable energy equipment (+17.0%), and real estate development (+15.2%). Laggards were coal (-21.6%), nonferrous metals (-18.9%), and aluminum (-18.2%).

The current price-earnings level of the S&P 500 at 19.45 (per Barron's) is slightly lower than levels a year ago—indicating that although stocks appear fully valued, increases in the markets have been supported by earnings growth.

Looking forward, heightened volatility, geopolitical tensions, recent weakness in U.S. economic data, a strong dollar, low oil prices, overseas recession and deflation concerns, and uncertainty around Fed policy will likely dominate headlines during the second quarter of 2015.

	Total Returns (3/31/15)			Annualized Returns (3/31/15)		
Category/Style	1st Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500 (w/ dividends)	0.95	0.95	12.73	16.11	14.47	8.01
Russell 1000 Large Cap	1.59	1.59	12.73	16.45	14.73	8.34
Russell 1000 Growth	3.84	3.84	16.09	16.34	15.63	9.36
Russell 1000 Value	-0.72	-0.72	9.33	16.44	13.75	7.21
Russell 2000 Small Cap	4.32	4.32	8.21	16.27	14.57	8.82
Russell 2000 Growth	6.63	6.63	12.06	17.74	16.58	10.02
Russell 2000 Value	1.98	1.98	4.43	14.79	12.54	7.53

Source: Frank Russell Company/Standard and Poor's

International Stock Markets

Liquidity provided by the European Central Bank and the Bank of Japan, as well as receding macroeconomic risks, helped to stabilize global economies in the first quarter and fuel sharp equity market rallies. Euro-area manufacturing is expanding. China's growth is slowing, but the growth target remains about 7%. The Russian economy is on course to fall deeper into recession. The strength of the dollar and lower oil prices present a challenge for some, while posing benefits for others.

The MSCI EAFE Index of developed markets outperformed the broad U.S. markets, gaining 4.88% in the first quarter. Emerging markets also advanced 2.24%, as measured by the MSCI Emerging Markets Index. Frontier markets dipped 3.11%, according to the MSCI Frontier Market Index.

Major international markets diverged higher from their U.S. counterparts in the first quarter, with the Stoxx Europe 600 Index leaping 15.99% to 342.54. Germany's DAX Index rocketed 22.03% to 11,966.17, and France's CAC-40 Index soared 17.81% to 5,033.64. The UK London FTSE 100 Index closed modestly higher at 6,773.04, gaining 3.15%.

In Asia, the Dow Jones Asia-Pacific Index gained 5.98%, to finish the quarter at 1,511.31. Japan's Nikkei stock average moved up 10.06% to 19,206.99, and China's Shanghai Composite Index vaulted 15.87% to 3,747.90.

The top-performing industry groups for the first quarter based on the S&P Dow Jones Global Industry Groups were toys (+22.2%), renewable energy equipment (+14.9%), and consumer electronics (+13.6%). Laggards included forestry (-12.3%), coal (-11.3%), and platinum and precious metals (-10.4%).

The dollar continued to strengthen against the Yen and the Euro, with the Yen (USD/JPY) finishing at 120.13, down 0.34% against the dollar and the Euro (EUR/USD) at 1.0735, off 12.72% vs. the dollar.

World Bond Markets

Bond market returns were higher in the first quarter. The Barclays U.S. Aggregate Bond Index increased 1.61%, the Barclays Municipal Index gained 1.01%, and the Barclays U.S. Treasury TIPS Index returned 1.42%. The U.S. 10-year note yield fell below 2% to 1.93% at the quarter's close. Yields remained paltry for money funds, with the 7-day yield on retail money funds at 0.02% according to iMoneyNet.

Yields on foreign bonds continued to drift lower, with the 10-year bond yielding 1.48% in the United Kingdom, 1.35% in Canada, and 0.33% in Japan. German yields dropped below Japan's, at 0.22% at the quarter's close.

Commodities

Commodities continued their precipitous decline, falling another 5.94% in the first quarter as measured by the Bloomberg Commodity Index. The more energy-laden S&P Goldman Sachs Commodity Index dropped 8.22% over the same period. Crude oil tumbled 10.64% to $47.60/barrel, and natural gas sank 8.65% to end the quarter at $2.64/MMBtu. Gold was virtually unchanged at 1,183.10.

Mutual Funds/Exchange-Traded Funds

The average domestic stock fund gained 1.1% in the first quarter, and the average taxable bond fund moved up 1.5%, according to Morningstar.

The latest release from the Investment Company Institute showed that the combined assets of the nation's mutual funds stood at $16.24 trillion at the end of February—representing a 3.2% increase over the previous year. Money markets stood at $2.68 trillion, a drop of 0.5% over the past 12 months. Exchange-traded fund assets crossed over $2 trillion in February, an increase of 21.2% over the prior year. The number of ETFs is now at 1,423—a rise of 96 funds (7.2%) in the past year.

Mutual Funds Overview As of March 31, 2015

	Total Returns			Annualized Returns		
Category	1st Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Intermed.	0.72	0.72	4.96	3.11	4.22	3.94
Short Taxable Bond	0.78	0.78	1.28	1.52	2.18	3.07
Intermed. Taxable Bond	1.54	1.54	4.74	3.44	4.62	4.64
Long Taxable Bond	2.77	2.77	13.60	5.73	8.47	7.18
High Yield Bond	2.23	2.23	0.73	6.34	7.45	6.74
World Bond	-0.54	-0.54	-1.06	1.58	3.24	4.15
Small-Cap Stock	3.61	3.61	6.03	14.89	13.72	8.30
Mid-Cap Stock	3.29	3.29	8.76	15.68	13.75	8.40
Large-Cap Stock	1.13	1.13	10.34	14.87	12.98	7.32
World Stock	2.82	2.82	4.18	10.89	9.46	6.64
Foreign Stock	4.70	4.70	-0.76	7.86	5.68	5.00
Natural Resources	-1.37	-1.37	-15.65	-2.91	0.74	4.87
Real Estate	4.38	4.38	22.53	13.07	15.05	8.76

Source: Morningstar, Inc.

Index definitions and other disclosures

Gross Domestic Product (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The **Federal Open Market Committee** (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). Real Gross Domestic Product (real GDP) is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate both nationally as well as in 20 metropolitan regions. **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. The **S&P SmallCap 600 Index** (S&P600) covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. The **S&P MidCap 400 Index** (S&P400) is a stock market index from S&P Dow Jones Indices. The index serves as a barometer for the US mid-cap equities sector and is the most widely followed mid-cap index in existence. To be included in the index, a stock must have a total market capitalization that ranges from roughly $750 million to $3.3 billion. **S&P Dow Jones Indices** is a joint venture between McGraw Hill Financial, the CME Group, and News Corporation that was announced in 2011 and launched in 2012. It produces, maintains, licenses, and markets stock market indices as benchmarks and as the basis of investible products, such as exchange-traded funds (ETFs), mutual funds, and structured products. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment.The **Russell 1000 Index** is a capitalization-weighted price-only index which is comprised of 1000 of the largest capitalized US-domiciled companies whose common stock trade in the United States on the New York Stock Exchange, American Stock Exchange and NASDAQ which are included in the Russell 3000 Index. This large cap market-oriented Index is highly correlated with the S&P 500 Index. **Russell 2000 Index** is a market-value-weighted index representing the 2,000 smallest companies in the Russell 3000 index, representative of the US small capitalization securities market. **Morgan Stanley Capital International Index** (MSCI) EAFE is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. The **MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. **International investing** involves special risks, including the possibility of substantial volatility due to currency fluctuation and political uncertainties. The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The **CAC 40 Index** is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse (now Euronext Paris). The **DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The **FTSE 100** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The **DJ Asia-Pacific Index** represents the leading stocks by dividend yield traded in the Asia/Pacific region. The **Nikkei Index** is a stock market index for the Tokyo Stock Exchange (TSE). The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The **MSCI Frontier Markets Indexes** provide broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. **Barclays Aggregate Bond Index** is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. The **Barclays Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital US Government Inflation-linked bond index** (US TIPS) measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or moreBloomberg LP and UBS today announced a strategic partnership that will result in Bloomberg Indexes being responsible for governance, calculation, distribution and licensing of the bank's market leading commodity indexes. The indexes will be renamed from the "Dow Jones-UBS Commodity Index Family" to the "**Bloomberg Commodity Index** Family" as of July 1. The **S&P Goldman Sachs Commodity Index** (S&P GSCI) serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. It is a tradable index that is readily available to market participants of the Chicago Mercantile Exchange. The **Investment Company Institute** (ICI) is the national trade association of US investment companies, which includes mutual funds, closed-end funds, exchange-traded funds and unit investment trusts. An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund. An exchange-traded fund (**ETF**) is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Investors cannot invest directly in an index. Past performance is no guarantee of future results.