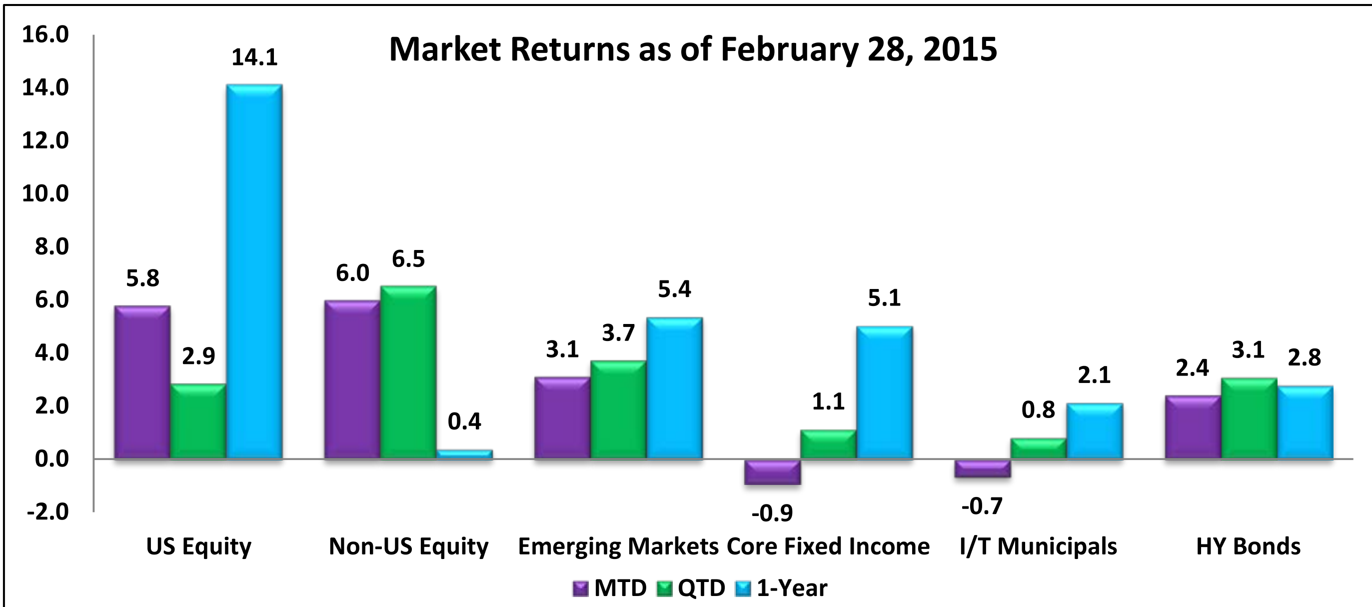
CAPITAL MARKETS RECAP

FEBRUARY 2015



Source: Barclays Capital, Russell and MSCI . Returns are preliminary.

After pulling back in January, U.S. equities rebounded strongly in February pushing year-to-date returns back into positive territory. International equities outperformed U.S. equities in February after trailing significantly in 2014. Broad U.S. bond market posted negative returns as interest rates moved back up after declining early in the year. Despite higher interest rates during the month, high yield bonds posted positive returns due to increased risk appetite of investors.

Economic Data

- The second estimate for fourth quarter 2014 real GDP was 2.2%, lower than the 2.6% reported in the advance estimate. For 2014, real GDP increased 2.4%, a slight improvement over the rate of 2.2% experienced in 2013. Growth was aided by increases in consumer spending, business investment, and exports.
- The U.S. unemployment rate held steady at 5.7% in January, changing little since October 2014. In January, the U.S. added 257,000 jobs.
- Inflation declined 0.7% pushing the 12-month Consumer Price Index to a negative 0.1%, the first 12-month decline since October 2009. The gasoline index declined sharply by 18.7% in January, extending the decline to seven consecutive months. Removing food and energy, the core index actually increased 0.2% for the month of January.
- Consumer confidence declined in February, but still remains above levels experienced prior to the recession. According to The Conference Board, consumers' short-term outlook on business conditions and the labor markets were less optimistic as compared to January.
- Global manufacturing sector growth remained steady in February, marking its 27th consecutive month of expansion. Growth was relatively broad based and was led primarily by the U.S. Europe reported positive, but lackluster growth, and Asia saw some signs of improvement. There were pockets of weakness in select countries such as France, Greece, Canada, Brazil, Turkey, and Russia.

U.S. Equities

- The U.S. stock market experienced robust returns in February.
- Size – Returns were broad based as all market capitalizations experienced similar returns for the month. However, mid caps outperformed both large and small caps on a year-to-date basis.
- Style – Growth stocks continued to outperform value stocks for the month and year.
- All S&P 500 sectors, except for utilities, reported positive returns for the month of February:

Best		Worst	
Consumer Discretionary	8.61%	Utilities	-6.40%
Information Technology	8.17%	Energy	4.05%
Materials	8.04%	Consumer Staples	4.24%

International Equities

- Developed international equities performed in line with U.S. equities in February, up 6.0% in U.S. dollar terms. On a year-to-date basis, international equities outperformed U.S. equities in both local and U.S. dollar terms (up 9.4% and 6.5%, respectively).
- Emerging market equities underperformed their developed market counterparts, but the asset class was still up a strong 3.1% for the month of February (in U.S. dollar terms).

Fixed Income

- After declining in January, interest rates rose in February resulting in negative returns in the bond market (interest rates and bond prices move inversely). The 10-year U.S. Treasury yield increased 0.3%, ending the month at 2.0%.
- Piggy backing on a strong stock market, high yield bonds were up 2.4% for the month of February.

Looking Ahead

- European equities have performed well since the ECB (European Central Bank) announcement of their bond buying program. Additionally, investors cheered the decision by European leaders to extend Greece's current bailout program. But structural issues remain in the Eurozone, such as uneven growth and an immobile labor market.
- The U.S. continues to be the key driver of global growth, but we have yet to see this growth translated into higher inflation. However, inflation pressures may be mounting despite lower oil prices. According to Chris Williamson, Chief Economist at Markit, "The combination of strong production growth, ongoing job creation and rising factory prices will keep alive the possibility that the Fed could be encouraged to start hiking interest rates as early as June."
- In her statement before the U.S. Senate Banking committee on February 24th, Janet Yellen acknowledged the improvement in the employment situation, but indicated that wage growth remained sluggish. She also cited foreign economic developments as a potential risk to the U.S. economic outlook. Finally, she left the door open for higher rates this year stating that rates could stay at this level "…for at least the next couple of FOMC meetings."

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