



December 2014 Capital Markets Review

INDEX	PERIOD ENDING DECEMBER 31, 2014					
U.S. EQUITY MARKETS	QTR	YTD	1 YR RETURN	3 YR RETURN	5 YR RETURN	10 YR RETURN
S&P 500 Index	4.93%	13.69%	13.69%	20.41%	15.45%	7.67%
Russell 3000	5.24%	12.56%	12.56%	20.51%	15.63%	7.94%
Russell 1000	4.88%	13.24%	13.24%	20.62%	15.64%	7.96%
Russell 1000 Value	4.98%	13.45%	13.45%	20.89%	15.42%	7.30%
Russell 2000	9.73%	4.89%	4.89%	19.21%	15.55%	7.77%
Russell 2000 Value	9.40%	4.22%	4.22%	18.29%	14.26%	6.89%
NON-U.S. EQUITY MARKETS						
MSCI ACWI Ex US	-3.87%	-3.87%	-3.87%	8.99%	4.43%	5.13%
MSCI Emerging Markets	-4.50%	-2.19%	-2.19%	4.04%	1.78%	8.43%
FIXED INCOME						
Barclays Aggregate Bond	1.79%	5.97%	5.97%	2.66%	4.45%	4.71%
Barclays Municipal Bond 3 Year	-0.13%	1.22%	1.22%	1.47%	1.93%	2.97%
Barclays US TIPS	-0.03%	3.64%	3.64%	0.44%	4.11%	4.37%
REAL ASSETS/NATURAL RESOURCES						
DJ US Select REIT	15.09%	32.00%	32.00%	16.10%	16.99%	8.13%
S&P North American Natural Resources	-13.86%	-9.77%	-9.77%	2.42%	4.28%	7.65%

Commentary

- ❖ The U.S. equity market advanced 5.2% in the quarter, although the rise was anything but steady. Valuations dropped in mid-October as investors reacted to fears of a global Ebola pandemic, but recovered later in the month and through November as lower valuations and generally favorable third quarter corporate earnings presented a buying opportunity. Volatility returned in December as falling oil prices triggered another sharp stock market sell off early in the month. Spot oil ended the year at \$53 per barrel, its lowest level since May of 2009, and down from its 2014 high of \$106. U.S. equity losses were recouped in the latter part of the month, however, amid an upward revision of third quarter GDP growth to 5% and accommodative language from the Federal Reserve. The market ended the year up 12.6%, representing the sixth consecutive annual gain.
- ❖ International equities fell 3.9% in U.S. dollar terms in the quarter as the negative impact of the stronger U.S. dollar more than offset the 1.1% local currency return. For the year, the international equity markets declined 3.9% in U.S. dollar terms, but gained 6.1% in local currency terms. Japan and Asia ex-Japan led the developed regions in the quarter with local currency returns of 6.7% and 3.0%, respectively, supported by continued economic stimulus measures. Developed European stocks were unchanged in local currency terms for the quarter as the prospect of further economic stimulus favored the results in some constituent markets, while continued recession in the more economically fragile countries triggered selling in those respective markets.
- ❖ Emerging market stocks were unchanged on a local currency basis in the quarter, but declined 4.5% on a U.S.-dollar basis after accounting for the strength in the U.S. dollar. Emerging Asia was the best performing region in the quarter, led by the 7.0% local currency return in China. The Peoples Bank of China lowered the country's benchmark rate in the quarter in an effort to stimulate the slowing economy, while the opening of China's mainland A share stock market to foreign investors also aided results. Mainland A shares jumped more than 50% in local currency terms in the quarter. Emerging Europe fell 3.9% in local currency terms in the quarter as all but one constituent market declined (Turkey

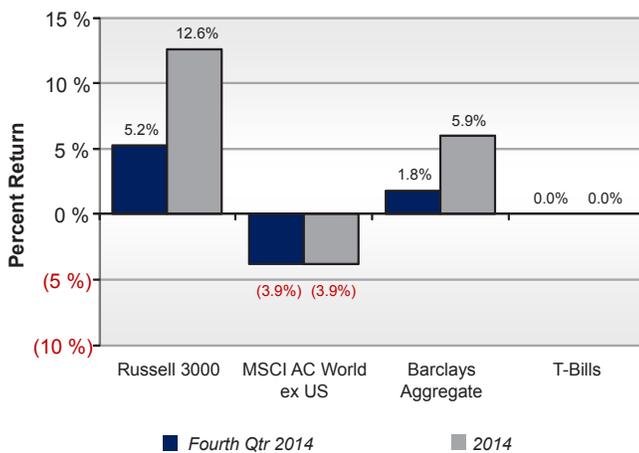
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returned +14.4%). Greece posted the largest local currency loss for the quarter (-25.7%) as Prime Minister Samaras was unable to secure support for a Presidential candidate, triggering an election that brings an anti-austerity party into contention and increases the likelihood of a Greek exit from the Euro. Russian stocks declined 6.0% in the quarter as the country's economy was hit by the sharp sell off in oil, and the central bank responded by increasing the key interest rate by 10.5 percentage points to 17% in effort to defend the falling ruble. The Latin American region declined 6.1% in local currency terms in the quarter as the commodity export driven region suffered from continued commodity price declines. All regional constituent experienced local currency stock market losses in the quarter.

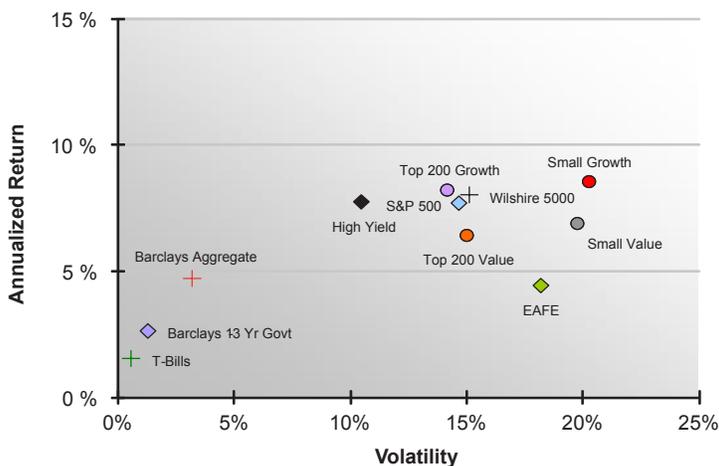
- ❖ With the end of quantitative easing already priced into the market, and the Fed's guidance toward "patience" in raising short-term interest rates, the high-quality fixed income segments of the U.S. market performed well in the quarter. Long-term U.S. Treasuries were the best performing segment of the fixed income market for the quarter and year as a global flight to quality lifted valuations. The benchmark 10-year yield declined for the quarter and year by 0.35 and 0.87 percentage points, respectively.
- ❖ TIPS were unchanged in the quarter as a lower-than-expected inflation reading offset the positive impact of falling interest rates. The breakeven inflation rate implied in 10-year U.S. TIPS ended the quarter at 1.68%, down from 1.97% at the end of the prior quarter.

Major Capital Market Returns



Note: The following indices represent the returns of the asset classes within the above chart: U.S. Stocks – Russell 3000, Non-U.S. Stocks – MSCI EAFE, Fixed Income – Barclays Aggregate, and U.S. Treasury Bills

Risk/Return – Trailing 10 Years



Source of statistics not otherwise specifically cited within this newsletter: Strategic Capital Investment Advisors

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