

GDP (lagging indicator)



Q4, 2014 (Third Estimate)

Increased at annual rate of 2.6% after spectacular Q3 rate of 5%. Slowdown due to decrease in capital expenditures.

EXISTING HOME SALES



Thru February 2015

Up 1.2% constrained inventory levels helping to drive price growth.

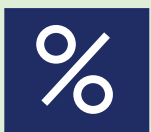
UNEMPLOYMENT RATE



Thru March 2015

Held at 5.5% (seasonally adjusted).

CONSUMER PRICE INDEX



February 2015

Up 0.2% (seasonally adjusted) due to increased costs of shelter, energy and food.



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Economic News

The momentum of a strong 2014 did not carry the American economy upward during Q1 2015 when viewed against certain key indicators. In the second half of 2014 the national unemployment rate dipped below 6% for the first time in over six years and ended the year at 5.6%. According to the Bureau of Labor and Statistics, unemployment actually increased during the first month of 2015, climbing to 5.7% in January, only to drop to 5.5% in February and remain unchanged through the end of the quarter. Some surprise came from the announcement that nonfarm payroll employment increased by only 126,000 in March, 2015, after increases of 257,000 and 295,000 in January and February, respectively.

Markets performed unimpressively, with the Dow Jones Industrial Average dipping to 17,776.12 by the end of the quarter, representing a 0.26% decrease for the period. While the S&P 500 outperformed the Dow, climbing to 2,067.89 by the end of the quarter – representing a 0.43% increase, much was left to be desired.

Consumer discretionary spending decreased during the quarter, dropping to \$81 and \$82 in January and February, respectively. The drop in consumer spending represents not only a drop from the \$98 mark during December 2014, but also a drop from the \$87 mark that we experienced one year ago, in February and March, 2014.

The housing sector provided some reason for optimism, as sales of single-family houses experienced a seasonally adjusted increase of 500,000 in January and 539,000 in February. Mortgage statistics from Freddie Mac may encourage those on the fence about making a home purchase to do so sooner than later to avoid a higher interest rate. The average commitment rate and points on 30-year fixed-rate mortgages climbed, reaching 3.67% in January, 3.71% in February, and 3.77% in March.

Index	1st Qtr	1 Year	5 Year	10 Year
Barclays U.S. Aggregate Index	1.61%	5.72%	4.41%	4.93%
MSCI AC World Ex US Net Total Return	3.49%	-1.01%	4.82%	5.46%
Russell 2000 Value Total Return	1.98%	4.43%	12.54%	7.53%
S&P 500 Composite Total Return	0.95%	12.73%	14.47%	8.01%

Slick Oil Prices

Oil prices have continued to be volatile this year. As of the end of March, West Texas Intermediate Crude (WTI) finished at \$47.60, down 4.3% for the month of March and 10.6% for the quarter based on the front month contracts. The Brent Crude benchmark finished at \$55.30, down 3.9% for the month and 11.9% for the quarter. This comes after oil prices fell by more than 50% in 2014. Slumping oil prices can be attributed

(continued)



“The individual investor should act consistently and not as a speculation.”

Ben Graham

to a large supply glut as the US now rivals Saudi Arabia as the world's strongest oil producer, in addition to OPEC's resistance to cut back production. According to the International Energy Agency, production is slated to increase 8.1% this year, and 1.5% next year. World demand is expected to rise by up to 1.5 million barrels per day, thus doubling the rate of demand for growth, but still not enough to exceed production. During the global recession in 2009, both WTI and Brent Crude traded under \$40 a barrel, but some analysts believe current price declines are related to supply growth rather than plummeting demand. Advances in technology related to oil extraction techniques have helped drive greater oil production as the extraction process is now more efficient than ever before. Some argue oil prices could continue to stay low as long as world production, especially in the United States, outpaces demand.

Currency on the Rise

As we look at major economic drivers for the remainder of 2015 and beyond, currency exchange rates are an important factor to consider. With the US showing signs of economic recovery, dollar values have soared by 11% in the last three months when compared against a basket of widely used currencies. With the European Central Bank lowering interest rates to below zero last June and initiating quantitative easing through open market bond purchases on March 9, the euro fell 11% against the dollar in Q1. According to the IMF, central banks worldwide have seen reserves of euros fall to 22.2% of total currencies, while dollar deposits jumped to 62.9%, marking its highest level since 2009. With the dollar appreciating rapidly relative to other currencies, foreign exporters are gaining an advantage as their goods are devalued; domestic producers that sell abroad are hamstrung. The Purchasing Managers' Index (PMI) for the Eurozone measuring the manufacturing sector rose to a 10 month high on the back of weak currency. However, the cost of servicing dollar-denominated debt in foreign countries is rising with continued appreciation of the dollar. The Fed is doing foreign bondholders few favors by leaving the door open to raise rates—the first increase since 2006. As a holder of \$1 trillion in US dollar-denominated debt, China utilizes the one major currency that has remained loosely pegged to the dollar. Historically, foreign critics have accused China of keeping their currency artificially weak to help their export economy, but the dollar has appreciated a mere .6% against the yuan this year and domestic pressure is building against the appreciating yuan. For a currency vying to become the next global reserve medium, mild depreciation would not be a surprise and a snap devaluation seems unlikely. With such a diverse set of variables, the state of the world's currency market will be crucial to monitor.

The Barclays US Aggregate Bond Index is a market capitalization-weighted index of investment-grade, fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year. The MSCI All Country World Exclude US Net Total Return is a commonly used measure of common stock total return performance of 22 of 23 Developed Markets countries excluding the US. The Russell 2000 Value Total Return Index is a commonly used measure of small capitalization value stocks. The S&P 500 Total Return is a commonly used measure of common stock performance of 500 leading companies in leading industries of the U.S. economy. All referenced indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results.

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