Market Update

March 31, 2015

During the first calendar quarter of 2015, most U.S. market indices remained at record high levels, unchanged from the fourth quarter of 2014. Within the major indices, the S&P 500 was up 0.4%, the Dow Jones Industrials were down 0.3%, and NASDAQ, with its greater representation of technology companies and smaller companies, was up 3.5%.

However, because of economic reports reflecting weak consumer spending in retail and weak corporate spending on plants and equipment, U.S. capital markets provided only mediocre incremental returns.

Also during the first quarter, U.S based investors were directly impacted by the 10% appreciation of the U.S. dollar as the Euro declined from $1.21 to $1.09. For U.S. investors the market value of their European holdings was in essence “marked down” by the amount of the depreciation of the Euro versus the dollar. The stronger dollar will most likely cause U.S. multinationals to experience a negative impact in their earnings reports as their Euro based profits are converted into fewer U.S. dollars. These multinationals, which are represented in the Dow and S&P indices, will probably report earnings decreases relative to last year’s first quarter. The NASDAQ index, comprised of many more domestic U.S. companies, was much less exposed to the Euro than the Dow and S&P indices. Therefore, NASDAQ companies have produced better investment returns than Dow and S&P companies and should also report superior earnings results.

In fixed income markets, ten year U.S. Treasury yields dropped below 2% and produced a quarterly return of 2.5%, the fifth quarter in a row of positive results for this type of bond investment. At least some of this decrease in yield was brought about by the European Central Bank adopting a Quantitative Easing (QE) program in December of buying European Government bonds to provide more liquidity to European markets. This had the effect of driving down interest rates still further in Europe. In the first quarter for example, a 10 year German Government bond yielded 0.1%, and therefore made a U.S. Treasury bond with a yield of 1.9% much more attractive to global institutional bond investors.

Merger and acquisition activity continued at a brisk pace during the first quarter, and if it continues in the ensuing quarters, 2015 will be a record year. Many of the announced transactions occurred within the health care field and unsurprisingly, health care stocks were the best performers during the first calendar quarter.

During this first quarter, a great deal of corporate activity was directed at stock buybacks and dividend increases. The typical corporation’s response to a slow growing, low inflation economic environment, is to put cash back in the hands of investors via dividends and to enhance the stock price through buybacks of shares.

There continues to be more day to day volatility within equity markets, yet overall trends remain modestly positive and market valuations remain reasonable, in our view. Consequently, we continue to be fully invested in equities, believing that they will produce superior returns relative to bonds over any intermediate or longer time frame.

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