Quarterly outlook
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April 2015

As mentioned in recent commentaries, we continue to maintain a positive outlook on equity markets.

Looking back at the first quarter of 2015, the market returns we have seen show mild increases in the U.S. and internationally. The S&P yielded returns of 0.95% and international markets measured by the MSCI EAFE were up 4.85%.

Though our outlook is generally positive, three major themes have continually resurfaced, which we are keeping a close eye on: the strength of the U.S. dollar, interest rates, and volatility.

Let's take a look at how each of these three themes has affected the markets in the recent quarter.

U.S. Dollar

The strength of the U.S. dollar has continued its carryover into 2015, which yields both positive and negative effects. The strengthened dollar keeps inflation in check and commodity pricing low, all of which is good news for U.S. purchasing power. However, if a strong dollar persists, it will eventually have a negative effect on exports, making domestic goods too expensive compared to products on the international stage. Moreover, when U.S. companies repatriate international profits, they are likely going to be faced with a significant loss in currency translation. The downside will likely affect larger corporations most, due to their international exposure, so we are keeping a keen eye on these developments.

Interest Rates

The Federal Reserve continues to suggest a hike in interest rates, so the market has been preparing for this eventuality. Though the timing is still speculative, most expect a hike sometime during the second or third quarter of the year. As investors brace for this change, we are reminded that regardless of what the Federal Reserve does, the market ultimately controls interest rates.

With that being said, without seeing a consistent increase in inflation, it is unclear how a rise in interest rates will be sustainable. When the rest of the world is sitting on record low interest rates that are much lower than our own, sustaining higher interest rates domestically will be difficult, at least until there is a more uniform progression upwards across the globe.

Volatility

We are just now beginning to see normal rates of volatility. Over the last five years, markets have been pretty silent, with the last significant pullback dating back to 2011. Additionally, we haven't experienced a 10% correction in over three years. Relatively speaking, this is smooth sailing for the stock market.

We believe the normalized rates of volatility are largely attributed to fair valuations. Once assets reach fair valuations, there is a smaller margin of error. When the market hears news that is less than favorable, the markets react and pricing is affected. This change coupled with fluctuating interest rates will likely be the main drivers of volatility. As investors, we should note that this recent volatility is closer to what we should expect over long periods of time.

Overall, we continue to maintain a positive outlook on domestic equity markets. We also recognize the importance of diversifying internationally, where we believe equity markets are undervalued and likely provide greater potential for real return.

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