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Volatility returned to the equity markets, almost 75% of the trading days showed moves of more than 1% in a day. After a volatile January with a low of -3%, the market posed a strong recovery in February and gave up almost all gains for the year by mid-March, as the unemployment rate fell to 5.5% increasing the chance of an earlier than anticipated interest rate increase. West Texas Intermediate crude oil has ranged between $44 and $54 per barrel, indicating some level of stabilization in 2015. Meanwhile, the foreign exchange markets were marked not only by notable fluctuations in currency values, but also by changes in exchange rate systems for stability-obsessed countries such as Singapore and Switzerland. These developments reflect the effect of deviations among systemically important countries in economic performance and policy prospects. In the absence of coordinated policy responses and limits on interest-rate differentials, currencies are likely to remain the major shock absorbers. These recent large movements in foreign exchange markets are also prone to have an impact on corporate earnings and investors alike, as many international stock market investors left their currency exposures unhedged. Furthermore, the sharp downturn in oil prices forced energy companies to abruptly cut capital expenditures, and oil producing countries with large current account deficits, such as Russia and Venezuela, experienced deteriorating credit quality. This heightened sense of instability is compounded by political and geopolitical events e.g., the debt refinancing negotiations in Greece, the financial implosion of Russia, along with the escalation of violence from Islamic Extremists (ISIS). Central banks, in particular the Federal Reserve Bank, will continue to be instrumental to low volatility markets, increasing asset prices and financial healing. Policy efforts need to be coordinated and implemented in a timely fashion as $9 trillion of non-U.S./ non-bank debt will be negatively affected by higher U.S. interest rates. Also, the ECB is starting their Euro 1.1 billion 18 months QE program this March, but will it be enough to avoid a deflationary recession in Europe.

## Federal Reserve Bank Will Act Timely

The Fed is likely to respond primarily to domestic data: the U.S. economy has been gaining considerable momentum in the last three quarters, unemployment has dropped to 5.5% and wages are starting to increase. While headline inflation will decline in the short term as lower oil prices flow through the economy, inflation excluding energy continues to run near 1.5%, not that much lower than the Fed's 2% target. A small increase in the Fed Funds rate, is, therefore, expected in June or latest September, and is perceived as more of an indication of a change in Fed policy focus than an attempt to slow down an overheating economy. As demand for U.S. debt is likely to continue to be robust in pursuit of safe and higher returns (almost $ 2 trillion are invested in negative yielding government bonds in Europe alone), the effect of a modest rate increase on long-term interest rates is likely to be small. Although there may be a short term correction in the equity markets, it usually takes several rate increases before a more significant equity market reaction occurs. Equity markets historically continue to perform well for at least 9 more months after the first interest rate increase.

## Fixed Income Markets

Even though Treasury bond yields rose and corporate credit spreads widened after the latest job report, the amount that fixed-income securities will decline over the near term is likely to be limited by the strong international demand for U.S. dollar-denominated fixed-income securities. Much of the recent demand has been attributed to foreign investors in developed markets looking to pick up the higher yield that U.S. corporate bonds offer and invest in the safety of the strengthening dollar. The differential in yields, the spread between the 10-year U.S. Treasury and 10-year German bund has risen to +185 basis points, the widest spread that Treasuries have ever had over bunds. As the European Central Bank is continuing its quantitative easing program and the Bank of Japan continues to weaken the yen with its own asset-purchase plan, we expect that global fixed-income investors to continue to reallocate increasing amounts of their portfolios into U.S. dollar-denominated corporate bonds. As such, based on this demand, corporate credit spreads should continue to strengthen in the near term.

## Economy –Steady Improvement

The GDP was revised down from 2.6% to 2.2% due to a widening trade gap (effect of 1.1% on GDP) and a smaller gain in inventories. Also, manufacturing slowed down due to special circumstances such as the dockworker contract disputes at West Coast ports, and weather. However, consumer spending and demand for services grew by over 4% in Q4 indicating that the consumer driven US economy is likely to overcome a decline in global demand. An improving job market and cheaper fuel costs will continue to drive momentum. We expect the U.S. economy to grow at a 3% -3.5% rate in 2015 with the consumer as the main driver, supported by higher government spending on infrastructure programs.

## Outlook

In spite of rising short-term interest rates, we continue to believe that 2015 will be a good year for equities. The Standard & Poor’s 500 is selling at less than 16 times the consensus estimate of a lower expected corporate earnings. If the index were to trade at 19 times, well below the bubble range of 25 to 30 times, the market has an appreciation potential of 15%. The market will eventually realize that the impact of rising interest rates and a stronger dollar will be manageable. The continuous recovery in the housing market, a stronger consumer and improved capital spending, as well as low interest rates are expected to be important contributors to 2015 growth. Even with 10-year Treasury yields below 2.1 percent, economic growth trailing and earnings estimates deteriorating, the stock market staged a strong recovery in February (+5.5%), as companies announced $103.3 billion in total buybacks, double the amount in 2014 (Bloomberg data). Companies in the S&P 500 have spent more than $2 trillion on buybacks since 2009, underpinning an equity rally in which the index has more than tripled. They are increasing buybacks despite valuations reaching five-year highs, just as profits are forecast to post the first back-to-back quarterly contractions since 2009 (Bloomberg and S&P).Data compiled by Bloomberg show that S&P 500 companies hold $1.75

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trillion in cash and marketable securities. These buybacks should more than compensate for the expected decline in earnings and are likely to continue to lend strong support to equity markets. We rebalanced our portfolios by shifting investments more towards less currency sensitive, mid-cap companies with a focus on the US domestic market. Sectors of interest are consumer-discretionary, consumer staples, technology, healthcare, and REITs for income.