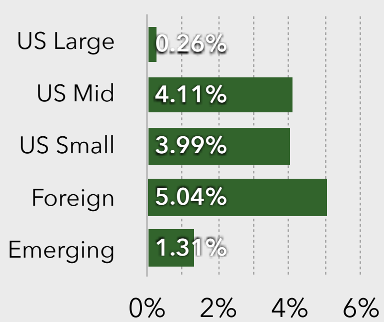
Economic Data

- 4Q GDP grew at 2.2% rate
- Year over Year Inflation (CPI) was -0.1% for February
- Retail Sales were down 0.6% in February
- Only 126,000 jobs were added in March and the unemployment rate remained at 5.5%

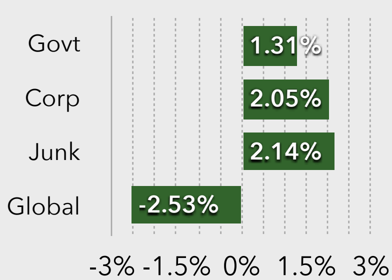
Stocks

1Q15 Returns



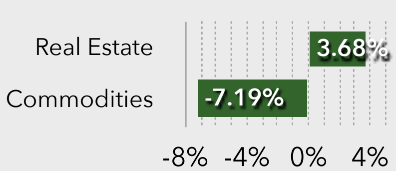
Bonds

1Q15 Returns



Alternatives

1Q15 Returns



Above index data provided by Morningstar.

Greco-German Wrestling

The eurozone monetary union has accomplished what two World Wars failed to – it has basically given control of Europe to the Germans. Unfortunately for the Germans and the rest of the union, the Greeks are turning out to have been pretty lousy people to let into the club. Tax evasion is a national sport for the Greeks, so despite getting an extension on their bailout from the other eurozone members they will likely never be able to pay back their 240-billion euro ($262 billion) bailout and will eventually be forced out of the eurozone.

This is certainly not the first time the potential for Greece to exit the eurozone has been in the headlines. The only difference this go-around is nobody seems to care all that much. This is because much has been done over the past few years to reduce the risk of a Greek default causing widespread problems throughout the global financial system. In 2010 85% of Greek debt was held by private investors, but today about 80% of their debt is in the hands of governments and the risk is fairly spread out.

Would a “Grexit” impact markets negatively? Most likely, but I don’t think y much and in the long-term it could be viewed as a positive. Think of it this way: the eurozone losing Greece would be roughly the equivalent to the US losing Alabama. It doesn’t sound so bad when you think of it like that, now does it?

What’s Janet Yelling About?

Get it? Because Janet *Yellen* is the Chair of the Fed. So not everybody likes a good pun. Anyway, the Fed dropped the word “patient” from their March 18 statement but assured investors they weren’t going to be impatient either when it came to raising interest rates. For some reason the stock and bond markets both applauded this. Even with weaker job growth in March, a rate hike as early as this summer should surprise no one.

The US is preparing to tighten monetary policy at a time when the rest of the world is looking to be more accommodative. On top of that, yields on bonds in many eurozone countries have turned negative. This means people are actually paying for the privilege to loan them money! All this has worked to strengthen the dollar considerably against foreign currencies across the globe.

Rising rates this year will very likely mark the end of what has more or less been a 34-year bull market for bonds. During this period interest rates have been in a general decline which is a tailwind for bond prices (there is an inverse relationship between interest rates and bond prices). Rising interest rates provide just the opposite, so don't expect much juice out of bond returns going forward.

Emerging Problems

While things look decent enough here in the US, a significant strengthening in the dollar is often a warning of a pending crisis in the emerging market world. The employment picture in China is weakening and it has kept consumer confidence there depressed. Capital is flowing out of the country and the People's Bank of China has been easing monetary policy. Commodity sensitive countries like Russia are hurting from the dramatic fall in energy prices. A crisis overseas could negatively impact not only international equity prices, but also stock prices here in the US. On the plus side, it's a fantastic time to take a vacation overseas as the dollar buys a lot more these days. I recommend Brazil.

Big Picture

Expect lower oil prices today to result in better US economic data by mid-year. Commodity and trade sensitive emerging market countries will feel the pain in employment growth, but employment in the US and other consumer-centric economies should benefit. This should lead to further strength in the US Dollar, and as I mentioned earlier a strong US dollar increases the odds of some sort of financial crisis abroad.

US small cap stocks, which on average have more of a domestic focus as compared to the larger multi-national stocks, are likely to do better than other parts of the equity market. Rising interest rates will hurt bond prices, but higher yields will offset this to some degree. Floating rate notes, whose coupons (interest payments) will move up when rates rise, should perform better than other bond classes.

Overall our expectations for returns for the remainder of the year are mild. US stocks are a little pricey, but nowhere near bubble territory. We may see a pull-back but we are long overdue for a correction so it shouldn't be anything to worry about. As for bonds, the best we can reasonably hope for is they produce a small positive return.

Keep calm and time will always smooth things out.

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