MURRAY
INVESTMENT MANAGEMENT

1st Quarter 2015 Update

Economic Review

After growing 2.2% during the 4th quarter, the U.S. economy seemed to hit somewhat of a soft spot during the 1st quarter of 2015 with estimated growth around 1.5%. A stronger dollar and bad weather served as headwinds, but many believe that these will be temporary factors.

Job growth was not as strong as we have seen in recent months and averaged 197,000 per month during the quarter. The unemployment rate, however, fell to 5.5% and is at its lowest level since 2008.

While keeping rates at historically low levels, the U.S. Federal Reserve provided one of the bigger stories during the quarter as the Fed dropped its “patient” language from its statement about increasing rates. With the language change, investors remain focused on economic data to determine when the Fed will begin to raise rates.

Equity Market Performance

	YTD
S&P 500	0.95%
MSCI EAFE (International index net return)	4.88%
Russell 2000 (small cap)	4.32%

The S&P 500 produced a slightly positive return for the quarter while small cap stocks outperformed (up 4.32%). The health care and consumer discretionary sectors were among the better performers while utilities and energy lagged. Broad international markets (up 4.88%) outperformed domestic markets.

Bond Market Performance

	YTD
Barclays US Aggregate Bond (Broad Bond Market)	1.61%
Barclays Municipal	1.01%
Barclays US Treasury Long	3.96%
Barclays US Corporate	2.32%
Barclays US Corporate High Yield	2.52%

The broad bond market posted solid results (up 1.61%) as the 10 year Treasury fell to 1.94% at the end of March. Long Treasuries were up sharply with the corporate space also performing well.

Economic Outlook

Most expect the U.S. economy to improve over the course of the year after a slow start to 2015. A better job market and lower energy prices should lead to improved consumer spending and a better overall economic environment.

As the economy improves, the Fed will likely raise rates at some point this year, and there will be a great deal of speculation on when this will occur. Currently, a rate increase in the fall seems to be a reasonable estimate. Rate increases are expected to be modest as the Fed will balance an improving U.S. economy and better labor market conditions against moderate inflation expectations.

Market Outlook

As noted at the end of 2014, a better employment situation, cheaper oil prices, limited inflation and a patient Fed are a good combination for equities. Weighing against these positive factors are U.S. equity market valuations, which remain somewhat elevated. As such, we are not likely to get further (P/E) multiple expansion from these levels, and corporate earnings will need to be strong to drive markets higher.

On the earnings front, a strong dollar and weak earnings from energy companies will weigh on earnings growth, but stronger consumer spending should serve to drive earnings higher. Taken all together, earnings growth will not likely be robust, which could translate into a grind-it-out type of market with modest returns. If / when the Fed raises rates, volatility will likely increase, but this could create some investment opportunities if there is an overreaction to this news.

Consistent with what we have seen over the last several years, interest rates remain low, and opportunities remain limited in the fixed income space. The risk / reward profile for many fixed income securities is not very favorable with very few attractive options. If rates increase, however, this view could change, and portfolios would be adjusted accordingly. Currently, holding a larger level of cash and shorter term securities in the fixed income allocation seems to be a reasonable approach.

Murray Investment Management

If you would like help with establishing an investment plan or would like to schedule a portfolio review, please give us a call. Also, please pass along our name to anyone that may be in need of investment advice.

Source: bls.gov, Morningstar, bea.gov, federalreserve.gov, Bloomberg and treasury.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 03/31/2015. Except as noted, index returns are Total Returns.

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