KALOS *Market Commentary*

April, 2014

Despite Weather, Global Turmoil, Tailwinds Increasing

Russia is providing more than its share of entertainment recently. The country will suffer economically from its decision to annex Crimea. While the effect of limited trade sanctions is hard to estimate, uncertainty from the crisis and current sanctions could drive 2014 GDP down by as much as 2.0%. If the international community keeps limited trade sanctions in place longer or adds to them, the effects will grow. For now, expectations are that tougher trade sanctions will only be used as a threat against further Kremlin aggression.

Looking forward, no tough action against Russia is likely from either the U.S. or the EU, despite contrary claims by Ukrainian and Western leaders. Europe depends on Russian energy and money, and the U.S. is using a path through Russia to withdraw equipment from Afghanistan. Putin has already got what he really wanted – Crimea's ports. He will likely now turn to minimizing the future economic cost of the annexation and calming Western concerns before the June G-8 meeting in Sochi.

Russia's misbehavior will likely give the U.S. a significant economic gift by further fueling enthusiasm to export natural gas. Even before this crisis, economic gains from exports were expected to be sizable with estimates of increasing GDP by around $20 billion by 2020. Now, geopolitics further boosts the case for exports. The U.S. will likely approve numerous export sites in coming months, adding to the half-dozen facilities already approved to ship liquefied natural gas (LNG). More than ever, Europe would like to reduce its heavy reliance on Russian gas and limit the Kremlin's international leverage. And, our gas is cheaper. It's also abundant. By some estimates, the U.S. has over 100 years of reserves accessible via modern drilling techniques.

Big profits are already on the way for gas producers, courtesy of the higher prices, and higher returns will stimulate more drilling in more places. U.S. gas output, already the highest worldwide, will grow in the years ahead. Pipeline construction will continue to surge. Estimates put the investment in infrastructure growth at around $14 billion a year for the next 20 years. Creating the infrastructure and eventually exporting the gas will provide the U.S. economy with a welcome tailwind and boost the recovery.

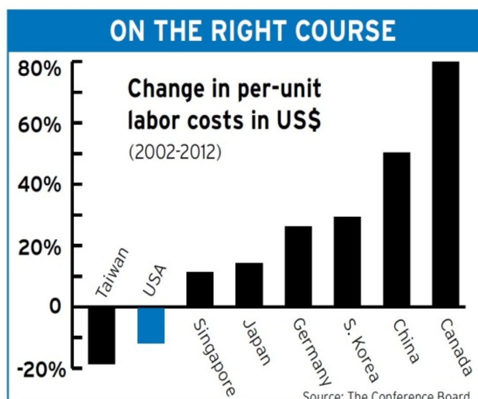
Looking beyond energy, the U.S. economy continues to improve with few major headwinds. The economy's winter slump brought on by severe weather affecting wide swaths of the country is likely over, although it will take some time to show up in the numbers. A sharp rebound in sales is under way, and retailers, auto dealers, restaurants and others should enjoy much better sales in the coming months. Manufacturing production has already rebounded, regaining Jan.'s decline, and March data on housing starts and sales plus retail sales should make it clear that growth isn't fizzling out. The economy should see a quick return to its upward trend.

The jobs market is finally improving along with the economy. While February's 175,000 jobs are a bit under the 200,000-plus-a-month increase expected in a strong economy, the number is surprisingly high considering severe weather disruptions. The jobless rate also grew as people reentered the

labor market because of growing job expectations.

Manufacturing also continues to shine. According to the Philadelphia Federal Reserve Bank, mid-Atlantic factories enjoyed strong activity. The bank's business activity index rebounded to 9.0 in March from -6.3 in February. Any reading above zero indicates expansion in the region's manufacturing. The report, which covers eastern Pennsylvania, southern New Jersey and Delaware, shows an ongoing pickup in manufacturing activity growth in 2014.

This localized trend is playing out across the U.S. Last year, U.S. manufacturing enjoyed another strong year with gains of 3.5% or possibly better. Five years into the slow recovery, manufacturing continues to outpace overall GDP growth. Jobs have also increased for the past seven months, and every region of the country is enjoying growth. Growth is also spread across many diverse sectors ranging from cars to semi-conductors to biotech. While some of the expansion is simply a recovery from the 20% fall during the meltdown, manufacturing strength is increasingly resulting from the changing competitive landscape in the U.S. Relative costs in the U.S. are declining due to various factors including energy prices, rising productivity, automation, and even lower shipping costs.



Three-dimensional printing is also likely to contribute more in the future. Manufacturers are already creating complex parts on high-end cars and motorcycles such as exhaust systems, manifolds and even turbochargers. As the trend trickles down, U.S. companies may be able to simply print more of their parts rather than ship them in from low cost producers. The trend will also speed development, already a U.S. strength, as prototypes can be quickly created and tested, speeding time to market for many concepts.

The positive trend in manufacturing could be quite long-lived because the U.S. enjoys significant competitive advantages in technology and complex processing critical to such industries as aviation, biotech, and large machinery.

All the good news in various segments of the U.S. economy is boosting consumer sentiment. The Conference Board said its index of consumer attitudes rose to 82.3 from 78.3 in February. That is the highest level since the start of the recession in January 2008. Tellingly, retail sales increased 0.3% in February in spite of the weather, with receipts rising in most categories, the Commerce Department said.

Beyond our borders, China's economic reform efforts are expected to produce highly favorable results, particularly in light of their massive financial strength. And, while the focus in Europe has been on the Ukraine, the rest of the continent is making economic progress. The European Central Bank is showing more willingness to aggressively boost the collective economies in the Eurozone.

The prevailingly positive news from many sources remains the primary reason that global markets have remained quite calm in the face of the Ukrainian crisis. Barring a significant escalation of tensions, markets are likely to continue in a similar direction.

Daniel Wildermuth
Kalos Management, Inc.
CEO

The opinions in the preceding commentary are as of the date of publication and are subject to change. Information has been obtained from third-party sources we consider reliable, but we do not guarantee that the facts cited are accurate or complete. This material is not intended to be relied upon as a forecast or investment advice regarding a particular investment or the markets in general, nor is it intended to predict or depict performance of any investment. We may execute transactions in securities that may not be consistent with the report's conclusions. Investors should consult their financial advisor on the strategy best for them. Past performance is not a guarantee of future results.

Securities offered through Kalos Capital, Inc., Member FINRA/SIPC/MSRB. Investment advisory services offered through Kalos Management, Inc., an SEC Registered Investment Adviser. Insurance products offered through Kalos Financial, Inc., a licensed insurance agency. These members of the Kalos Family of Companies are separate affiliated firms that share common ownership and are represented by the Kalos Financial service mark.

11525 Park Woods Circle, Alpharetta, GA 30005
Phone: 678.356.1100, Toll Free: 866.525.6726,
Facsimile: 678.356.1105,
ClientServices@KalosFinancial.com