Eideard Group
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Market Commentary **_Spring 2015_**

You may remember, we ended our fourth quarter commentary with a brief outlook on the US economy and its markets for 2015. We were pleased to acknowledge the continuing robustness and resilience of US growth but we also forewarned that the languishing world economy might eventually impact our own momentum. Only time would tell.

While the outcome is not convincingly clear, leading indicators seem to suggest just this: that our economy may have found another "soft patch". As was the case a year ago, we can either attribute this slowdown to another very tough winter and remain sanguine on hopes of a sharp late Spring turnaround - or we can examine whether there are more troubling undercurrents at work. As April comes to a close, the latter seems increasingly warranted. We know that monthly payroll figures were off sharply in March and wage growth remains meager. The labor participation rate is unchanged at 62% portending an unavoidable structural problem. Year over year inflation remains biased to the downside thanks in large part to the collapse of oil prices but domestic consumption has shown no significant corresponding spike at a time when a jump in discretionary income should have triggered just that. Not surprisingly, the final revision of quarterly GDP kept 4Q14's growth rate at 2.2% and the first release of 1Q15's growth rate was a very disappointing .2%. As to the US earnings picture, multi-national corporate profits have been impacted by a dollar whose value has surged more than 20% against world currencies in just twelve months. Yet despite all this, curiously enough, market sentiment continues to hang on the Fed's every word despite the fact that the futures market has already begun discounting the chance of any interest rate increase until well into 2015 if not 2016.

Against this early 2015 backdrop, the first quarter stock market witnessed plenty of daily volatility only to end up relatively flat. Overall the stock market, by most metrics, continues to remain pricey though bulls would say its premium remains justified in this low rate environment. Digging down into quarterly performance, growth stocks measurably outperformed value stocks across all capitalizations while small cap stock performance once again eclipsed large cap returns. On the international front, while the Federal Reserve remains pre-occupied with tightening, most other central banks led by the ECB have commenced massive quantitative easing programs to thwart deflation and jumpstart productivity. In Europe, the 60B euro per month bond buying program initiated in March has so far proven very successful. It has driven up liquidity, stimulated export sales on a depreciating Euro and has lifted, almost overnight, most member state stock markets to double digit highs. You'll remember this is exactly what happened here beginning in 2009 and subsequently what occurred in Japan two years ago when the Nikkei index shot up over 40%.

On the flip side, the overvalued bond market and other interest rate or credit sensitive investments continued to perform well relative to equities through quarter end. Within the fixed income space, municipal bonds continued to lead overall performance though it was a bit more muted than last year. And of course the collapse in oil prices and the spread widening that resulted across most energy sector bonds was a notable drag on taxable portfolios. As to midstream MLPs, unfortunately higher correlations among anything energy related drove prices down here as well despite that infrastructure partnerships rely almost exclusively on transportation and storage volume at prearranged long term contract fees. While we continue to expect near term price volatility as the energy sector continues to sort things out, we remain very constructive on the secular theme playing out; that the US is becoming increasingly energy independent and will one-day likely become a net exporter of black gold and natural gas. To us, it appears the only major headwind to achieving this end is in overcoming prohibitive legislation.

Surveying the next three months, we continue to expect market movement to remain just about the same but less the result of Fed watching. Rather, we see the potential for wider swings springing from Europe's re-emerging concern over Greece's recalcitrance and potential for a "Grexit"; an old story re-surfacing. The island is again running short on time and money to repay massive interest payments on previous bailout tranches provided to it by Germany, the ECB and the IMF. These same financiers now seem solidly opposed to extending another credit tranche to the small country without extracting further stringent reforms. Without an agreement and the accompanying liquidity, Greece is sure to default and could finally elect to exit the Union. We still don't think so, but volatility will surely result as the June deadline nears and the issue attracts headline news. Meanwhile, signaling the impending danger across the pond is the fact that Greek bond yields have again surged to highs of 12%, 15% even 27% on its longest debt despite the massive QE program. Hopefully, an agreement can be forged in time to keep any ripples from this problem close to home and the Eurozone intact. But only time will tell.