Dear Friends: April 8, 2015

1st Quarter 2015 Newsletter

The start of 2015 was marked by heightened uncertainty in the U.S. stock and bond markets which manifested itself in some historic market behavior. So far in 2015 there have been nine swings of 3.5% or more, a run up of 7% in February, and a 29 day stretch where the S&P 500 failed to put together back to back days of positive returns. This type of indecisiveness in the markets has only been seen twice since World War II and is a clear sign of the lack of confidence in financial markets.

This noise stems from one major source in particular, The Federal Reserve. It seems that in every newsletter we harp on the Fed and its significant impact on the markets, but this quarter the news out of the Fed was especially loud as we close in on the Fed's decision of when to raise rates. Analysts picked apart Fed statements with a fine tooth comb and extrapolated meaning from slight changes in Fed statements, particularly the removal of the word "patient." Despite this change in language, however, the Fed reiterated that just because it removed the "patient" language from its statement does not mean that it will become "impatient." Confused? Welcome to the life of a Fed analyst. Despite the substantial chatter coming out the Fed, consensus over the timing of rate increases has not changed dramatically nor has it had as much of an influence on market prices as would be expected given the commotion it has generated.

What did move markets during the 1st quarter was economic data and earnings, which showed signs of sluggishness. Economists are attributing this weakness in economic data and corporate earnings to the harsh winter weather, plunging oil prices, and most importantly a strong dollar. The strong dollar has had serious consequences for U.S. corporations as the dollar rose 13% against the Euro during the first quarter. The outcome of a strong dollar is two pronged in that (1) it has made U.S. products more expensive for global consumers thus reducing demand and (2) has reduced the dollar denominated profits and earnings of U.S. multinational corporations (approximately 40% of the revenue of S&P 500 companies is produced outside of the U.S. in non-USD currencies). This drop in projected earnings has led to a higher forward looking price to earnings ratio of 17x (higher P/E levels signal that the market is less attractive from a value standpoint).

Oil prices continued to decline during the quarter and fell over 13% to $48 per barrel, further damaging U.S. energy companies who were forced to cut production, exploration, and dividend payments. The fall in energy prices has not boosted consumer spending as quickly as was initially expected as buyers have yet to become accustomed to this additional cash in their pockets.

Moving overseas, markets have been starting to take off as the MSCI EAFE Index gained 5.47% for the quarter as the European Central Bank's stimulus kicks in and investors hold out hope that

Greece can make a deal with the ECB and stabilize the region. Japan also gained some steam and saw its index grow by 9% for the quarter. Emerging Markets gained ground as well with the MSCI Emerging Markets Index posting a 2.14% return for the quarter, supported by China's stimulus efforts to improve its slowing growth.

Bond yields continue to wait on action from the Fed and the rate on the 10 Year Government bond dropped during the quarter to 1.93% from 2.17%.

As we escape the doldrums of winter we look forward to meeting with you and are hoping for a prosperous spring!

Index	**Index Close**	**Quarter Price Return (%)**	**12 Mo Price Return (%)**
S&P 500	2,058.90	0.44%	10.44%
DJIA	17,823.07	-0.26%	8.01%
NASDAQ	4,736.05	3.48%	16.72%
Barclays Aggregate Bond	110.12	1.19%	3.26%
MSCI Europe-Australasia-Far East	60.84	5.47%	-4.51%
MSCI Emerging Markets	39.29	2.14%	-2.15%

All the best,

Locust Capital Management, LLC