First Quarter 2015 Market Review

April 2015

Economic Summary

Federal Open Market Committee (FOMC)
The FOMC continued to condition the market for an eventual interest rate increase. In March, the FOMC removed the word "patient" from their post meeting statement which described their approach to normalize interest rates. In addition, the FOMC indicated they will evaluate an interest rate increase on a "meeting-by-meeting basis".

However, weak oil prices, a strong U.S. dollar and moderate overseas economic growth continue to cast doubt over the timing of any FOMC interest rate action. As predicted in our 4Q 2014 Market Review, these factors combined to dramatically slow U.S. economic growth and mute inflation during the first quarter. We continue to project the Fed will keep interest rates low well into 2015.

Real Gross Domestic Product (GDP)
Real GDP increased at an annual rate of +0.2% in the first quarter, according to the "advance" estimate released by the Bureau of Economic Analysis. This follows moderate real GDP growth of +2.2% in the fourth quarter of 2014.

The deceleration in real GDP growth in the first quarter reflects positive growth in business inventory spending, positive but slower growth in consumer spending and declines in exports, fixed investment and state and local government spending. We anticipate the pace of GDP growth should improve in the coming quarters as labor gains and reduced energy costs support additional strengthening of consumer spending.

Economic Data
March 31, 2015

Global Growth	**1Q15**	**4Q14**	**3Q14**
U.S. GDP (1)	0.2%	2.2%	5.0%
Eurozone GDP (2)	1.3%(E)	0.9%	0.8%
Japan GDP (1)	-5.1%(E)	1.5%	-2.6%
China GDP (2)	7.0%	7.3%	7.3%
U.S. Inflation	**3/15**	**2/15**	**YoY**
Consumer Price Index	0.2%	0.2%	-0.1%
Core	0.2%	0.2%	1.8%
Key U.S. Economic Data	**3/15**	**2/15**	**12/14**
Leading Economic Index	0.2%	0.1%	0.5%
Durable Goods Orders	4.0%	-1.4%	-3.7%
ISM Manufacturing	51.5	52.9	55.1
ISM Service	56.5	56.9	56.5
Consumer Confidence	101.4	98.8	93.1
Auto Sales (millions) (3)	17.1	16.2	16.8
Retail Sales	0.9%	-0.5%	-0.9%
New Home Sales (millions) (3)	0.48	0.54	0.50
Existing Home Sales (millions) (3)	5.19	4.89	5.07
Unemployment Rate	5.5%	5.5%	5.6%
Under-employment Rate	10.9%	11.0%	11.2%
Labor Force Participation Rate	62.7%	62.8%	62.7%

(E) Investing.com Estimate, (1) Annualized Q/Q % Change, (2) Y/Y % Change, (3) Annualized M/M change

Inflation
U.S. inflation remains subdued and below the Fed's target range of 2.0% to 2.5%. The consumer price index (CPI) declined -0.1% for the 12 months ending March. Of particular note, the energy index declined -18.3% over the same span, more than offsetting the +2.3% increase in the food index. The less volatile core consumer price index (Core CPI), which excludes food and energy, increased +1.8% for the 12 months ending March.

Business
According to the Institute for Supply Management (ISM) Manufacturing Report on Business, economic activity in the manufacturing sector expanded in March for the 27th consecutive month and the overall economy grew for the 70th consecutive month. The Purchasing Manager's Index (PMI) ended March with a reading of 51.5%. *(A reading above 50% indicates that the manufacturing economy is generally expanding and a reading below 50% indicates that it is generally contracting.)*

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According to the Non-manufacturing ISM Report on Business, economic activity in the non-manufacturing sector grew in March for the 62nd consecutive month. The Non-manufacturing Index (NMI) ended March with a reading of 56.5%. *(A reading above 50% indicates that the non-manufacturing economy is generally expanding and a reading below 50% indicates that it is generally contracting.)*

Consumer
Consumer confidence increased to 101.4 in March driven by consumers' relatively favorable assessment of current economic and labor market conditions; however, consumers continue to remain concerned about income growth. Retail sales increased +0.9% in March following a -0.5% decline in February. However, even with the bounce back in March, total first quarter retail sales declined -1.3% from fourth quarter 2014.

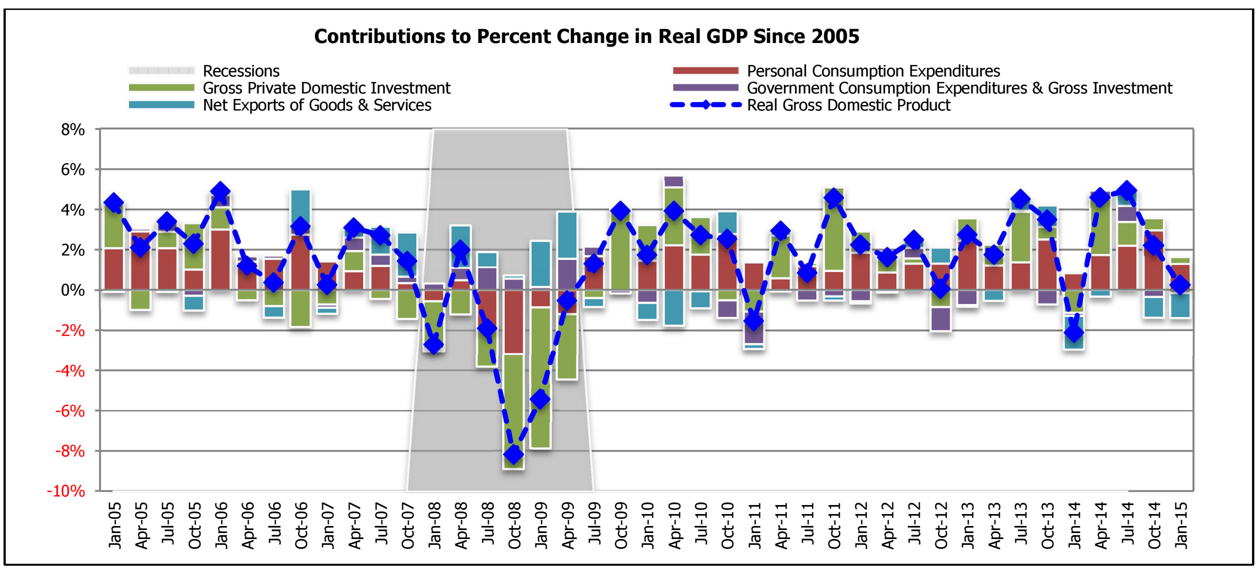
Housing
The housing market continued its trend of modest improvement. Existing-home sales in March were reported at an annualized rate of 5.19 million units. This is up slightly from February's 4.89 million unit rate and up 10.4% from March 2014. Economists believe a continued rebound in housing is likely, primarily as a result of attractive mortgage rates and the improvement in employment.

Employment
The employment reports remained solid, although not as robust as the fourth quarter of 2014. Employers added an average of 197,000 jobs each month during the quarter. As a result, the unemployment rate in March fell to 5.5% down from December's 5.6%. As a point of reference, job growth averaged 246,000 per month in 2014. However, the labor force participation rate remained unchanged at 62.7% indicating the rate of new jobs added will need to accelerate going forward in order to keep pace with the growth in the working-age population. Economists believe that steady payroll gains should continue, and payroll gains to ensue as the unemployment rate trends toward 5.0% over the next several months.

Average hourly earnings of all employees on private nonfarm payrolls rose by 24 cents to $24.86 from December to March. Over the past 12 months, average hourly earnings increased by +2.1%.

The view forward
Domestically, steady but unremarkable data during the quarter on consumer spending, business investment, payroll gains and tepid inflation indicate the U.S. economy is still moving forward albeit at a slower pace. Economists predict the U.S. economy should grow at annualized rate of 3% this year thanks to falling energy prices, lower unemployment and stronger purchasing power.

Globally, potential risks to the U.S. economy include continued slowing in China's growth, a monetary policy misstep by the Fed, the success or failure of the recently launched European Central Banks's (ECB) asset purchase program of approximately $70 billion and/or an escalation in geopolitical tensions.



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Equity Summary

Domestic Equity	Total Return March 31, 2015			
	QTD	YTD	2014	2013
Major Indices				
DJIA	0.3%	0.3%	10.0%	29.7%
S&P 500	1.0%	1.0%	13.7%	32.4%
Nasdaq	3.9%	3.9%	14.7%	40.2%
Market Cap				
Large (1)	1.6%	1.6%	13.3%	33.1%
Mid (2)	4.0%	4.0%	13.2%	34.8%
Small (3)	4.3%	4.3%	4.9%	38.8%
Style (Growth)				
Large	3.8%	3.8%	13.1%	33.5%
Mid	5.4%	5.4%	11.9%	35.8%
Small	6.6%	6.6%	5.6%	43.3%
Style (Value)				
Large	-0.7%	-0.7%	13.5%	32.5%
Mid	2.4%	2.4%	14.8%	33.5%
Small	2.0%	2.0%	4.2%	34.5%

(1) Russell 1000, (2) Russell Midcap, (3) Russell 2000

Third straight volatile quarter
Investor concern over weak energy prices fueled a sell-off in the domestic equity market during January with the S&P 500 equity index down -3.0%. However, a rebound in energy prices, positive news out of Europe and the Fed announcing it will be "patient" in rising rates fueled a strong equity market rally propelling the S&P 500 to a +5.8% gain in February. The rally subsided in March as the S&P 500 declined -1.6% on concerns of a slowing U.S. economy and weaker than expected corporate profits for the first quarter. For the quarter, the S&P 500 gained +1.0%, its ninth consecutive positive quarter.

Market Cap and Style
During the first quarter, small-cap stocks continued to outperform large-cap and mid-cap stocks by posting a gain of +6.6%. Large-cap and mid-cap stocks were up +3.8% and +5.4%, respectively. The strong dollar is taking a toll on earnings of large-cap companies which generate well over one-third of their revenue from abroad, whereas small-cap companies only generate about one-fifth of their revenue from abroad.

For the quarter, growth outperformed value across the each market cap.

Sectors
Once again, the first quarter saw a broad dispersion in returns among the ten economic sectors in the S&P 500 index, indicating that sector selection is important to capturing positive returns. The health care sector was the top performer for the quarter, posting a gain of +6.5%. The consumer discretionary sector also posted good results for the quarter with a gain of +4.8%. The utilities sector was the worst performing sector for the quarter posting a decline of -5.2%. Energy also struggled this quarter posting a loss of -2.9%.

Corporate revenue and earnings
According to FactSet, 58% of companies in the S&P 500 reported revenue above estimates in the fourth quarter and 75% of companies reported earnings above estimates. Fourth quarter revenue growth came in at +2.0% compared to +3.0% in the third quarter. Fourth quarter earnings growth came in at +3.7% compared to +8.0% in the third quarter. First quarter projected revenue decline is -2.6% and projected earnings decline is -4.7%.

Beware of weak earnings
As predicted, a stronger U.S. dollar and weakening economic activity in the European Union and Asia did place pressure on corporate earnings during the fourth quarter of 2014 and this trend continued into the first quarter 2015. As a result, price/earnings (P/E) multiples are trending above their ten year average while earnings are trending slightly below their 10 year average. We believe stock market returns will continue to be driven primarily by corporate earnings growth and dividends for the foreseeable future.

The view forward
We view the overall domestic economic environment as supportive of stock prices subject to periodic bouts of volatility until energy prices and global economies find their equilibrium. In the current environment we will favor dividend paying large, mid and small-cap stocks.

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Taxable Bond Summary

U.S. Treasury Yield Curve (%)				
	Mar15	Dec14	Dec13	Dec12
6 Month	0.14%	0.12%	0.10%	0.11%
2 Year	0.56%	0.67%	0.38%	0.25%
5 Year	1.37%	1.65%	1.75%	0.72%
10 Year	1.94%	2.17%	3.04%	1.78%
30 Year	2.54%	2.75%	3.96%	2.95%

Treasury yields continue to fall
The yield curve continued to flatten as short term rates increased while intermediate and long term rates declined. The yield on the benchmark 10-year Treasury fell to 1.94% during the quarter. The drivers of lower yields were continued weakness in global growth, continued weakness energy prices, the strength of the U.S. dollar and a general consensus that inflation is well under control. As a result, U.S. Treasury securities were sought for their safe haven status which placed downward pressure on yields throughout the quarter.

Globally, the yield on the 10-year U.S. Treasury bond continues to look attractive to foreign investors when compared to the 10-year government bonds in Germany (0.2%), Japan (0.4%) and the U.K. (1.6%).

Taxable bonds deliver solid returns
Taxable bonds delivered solid returns during the quarter as the Barclays Aggregate Bond Index posted a return of +1.6%.

Within the Barclays Aggregate Index, the corporate sector was the top performer for the quarter posting a gain of +2.3% while securitized bonds lagged with a return of 1.1%.

High yield bonds posted a gain of +2.5% during the quarter fueled by the stabilization of oil prices. Debt from energy related issuers' accounts for a large portion of the high yield index. The demand for high yield issues caused spreads to tighten by +17 basis points (+0.17%) during the quarter.

Bonds with greater than ten years to maturity outperformed as investors continued their search for yield.

Investors absorb new issues
Issuance was heavy as companies brought bonds to market to take advantage of the low interest rate environment. And investors readily absorbed these new debt issues with $347 billion in new investment grade issues, $89 billion in new high yield issues and $402 billion in new issue mortgage-backed securities (securitized) all being oversubscribed during the quarter.

As a point of reference, first quarter corporate debt issuance was +13.1% above first quarter 2014, first quarter high yield issuance +27.0% above first quarter 2014 and first quarter securitized debt issuance was +22% above first quarter 2014.

The view forward
We continue to underweight Treasury and Agency bonds in favor of Corporate and Securitized bonds. As market conditions allow, and as appropriate for each client, we will look to shorten duration, improve credit quality and increase coupons in anticipation of rising interest rates in the latter half of 2015.

Domestic Taxable Bonds	Return March 31, 2015			
	QTD	YTD	2014	2013
Index				
Barclays Aggregate	1.6%	1.6%	6.0%	-2.0%
Index Sectors				
Treasury	1.7%	1.7%	5.1%	-2.8%
Agency	1.2%	1.2%	3.7%	-1.6%
Corporate	2.3%	2.3%	7.5%	-1.5%
-Industrial	2.5%	2.5%	7.6%	-2.6%
-Utility	2.5%	2.5%	11.5%	-3.2%
-Finance	2.0%	2.0%	6.2%	0.9%
Securitized	1.1%	1.1%	5.9%	-1.3%
-ABS	0.9%	0.9%	1.9%	-0.3%
-MBS	1.1%	1.1%	6.1%	-1.4%
-CMBS	1.8%	1.8%	3.9%	0.2%
Index Quality				
Aaa	1.4%	1.4%	5.3%	-2.1%
Aa	1.8%	1.8%	6.1%	-2.0%
A	2.2%	2.2%	7.5%	-1.9%
Baa	2.3%	2.3%	8.2%	-2.0%
< Baa	2.5%	2.5%	2.5%	7.4%
Index Maturity				
1-3 Year	0.6%	0.6%	0.8%	0.6%
3-5 Year	1.6%	1.6%	2.8%	-0.1%
5-7 Year	1.4%	1.4%	5.0%	-1.6%
7-10 Year	1.7%	1.7%	7.7%	-3.9%
10+ Year	3.4%	3.4%	17.7%	-8.6%

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Municipal Bond Summary

Domestic Municipal Bonds	Return March 31, 2015			
	QTD	YTD	2014	2013
Index				
Barclays Muni Bond	1.0%	1.0%	9.0%	-2.6%
Index Bond Type				
General Obligation	0.9%	0.9%	7.8%	-2.3%
Revenue	1.1%	1.1%	10.1%	-2.9%
Index Largest Issuers				
California	1.1%	1.1%	10.0%	-1.8%
Florida	1.2%	1.2%	8.8%	-1.5%
Illinois	0.8%	0.8%	10.4%	-3.0%
New York	1.0%	1.0%	8.6%	-2.2%
Texas	1.1%	1.1%	9.4%	-2.1%
Index Quality				
Aaa	0.8%	0.8%	6.3%	-1.6%
Aa	1.0%	1.0%	8.2%	-2.1%
A	1.1%	1.1%	10.5%	-2.6%
Baa	1.8%	1.8%	14.5%	-7.2%
<Baa	1.1%	1.1%	13.9%	-5.5%
Index Maturity				
1 Year (1-2)	0.2%	0.2%	0.6%	0.8%
3 Year (2-4)	0.4%	0.4%	1.2%	1.3%
5 Year (4-6)	0.7%	0.7%	3.2%	0.8%
7 Year (6-8)	1.1%	1.1%	6.1%	-1.0%
10 Year (8-12)	1.3%	1.3%	8.7%	-2.2%
15 Year (12-17)	0.9%	0.9%	11.7%	-3.3%
20 Year (17-22)	1.0%	1.0%	13.0%	-4.4%
Long (22+)	1.6%	1.6%	15.4%	-6.0%

Municipal bonds deliver moderate returns
Municipal bonds produced their 6th straight quarter of positive performance as measured by the +1.0% return of the Barclays Municipal Bond Index. February marked the first down month for municipal bonds since December 2013.

Overall, municipal bonds underperformed Treasury, Agency, Corporate and Securitized debt in the first quarter. From a technical standpoint, municipal bond issuance increased significantly during the first quarter to $106 billion which is above its five and ten year average and up +60% compared to the first quarter of 2014. Investor demand remains robust leading to upward price pressure and lower yields. The municipal yield curve continued to flatten as longer-maturity municipal bonds experienced the most significant price increases and yield declines.

Municipal bonds nationwide (Index Largest Issuers) returned approximately +1.0% this quarter as municipal credit conditions continue to improve and credit upgrades continue to outnumber downgrades.

Investor demand for yield generally meant that lower-rated longer-dated credits outperformed all others in the index.

We continue to monitor states whose economies rely heavily on revenues from oil production. Of particular interest are Alaska, California, North Dakota, Texas and Wyoming.

Puerto Rico
The Puerto Rico Corporation Debt Enforcement and Recovery Act legislation passed in 2014 was ruled unconstitutional in February. This decision is pending an appeal. As a result, both Moody's and Standard & Poor's downgraded Puerto Rico's debt.

Illinois
Illinois carries the lowest rating of any state at A3/A- as it faces a difficult financial situation. Illinois legislators are wrestling with a projected $6 billion budget deficit and a legislature not yet ready to address the issue. Ultimately, pension reform will be critical for the state to get its budget deficit under control.

Once again, our position is that essential service revenue bonds and highly rated general obligations bonds offer clients the most protection in the municipal marketplace.

The view forward
We continue to favor A-rated general obligation and essential service revenue bonds in the intermediate part of the curve. As market conditions allow, and as appropriate for each client, we will look to shorten duration, improve credit quality an increase coupons in anticipation of rising interest rates in the latter half of 2015.

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Economic Index Descriptions

Real Gross Domestic Product (GDP): Real GDP is a basic measure of U.S. economic output adjusted for inflation. Alternatively, it can be thought of as the final value of all goods and services produced within the U.S. Positive Real GDP growth signals an expanding economy.

Consumer Price Index (CPI): Measuring the change in the CPI provides an estimate for inflation. The CPI tracks the price of a basket of consumer goods and services. High inflation or deflation (negative inflation) can be signs of economic worry. CPI is typically reported in two ways: headline and core CPI. Headline CPI includes all categories that comprise the CPI basket of goods and services. Core CPI, which is closely monitored by the Fed, strips out the more volatile Food and Energy categories.

Conference Board Index of Leading Economic Indicators (LEI): The LEI is designed to signal peaks and troughs in the business cycle. The ten components of for the U.S. include: average weekly manufacturing hours; average weekly initial claims for unemployment insurance; manufacturers' new orders for consumer goods and materials; ISM® Index of New Orders; manufacturers' new orders for nondefense capital goods excluding aircraft orders; building permits for new private housing units; stock prices of 500 common stocks; Leading Credit Index™; interest rate spread on 10-year Treasury bonds less federal funds and average consumer expectations for business conditions.

Durable Goods Orders: An economic indicator released monthly by the Bureau of Census that reflects new orders placed with domestic manufacturers for delivery of factory hard goods (durable goods) in the near term or future. Durable goods orders come in two releases per month: the advance report on durable goods and the manufacturers' shipments, inventories and orders.

The Institute for Supply Management (ISM) PMI Index: The PMI is a composite index of five "sub-indicators", which are extracted through surveys to purchasing managers from around the country, chosen for their geographic and industry diversification benefits. The five sub-indexes are: Production, New orders, Supplier deliveries, Inventories and Employment level. An Index value over 50 indicates expansion; below 50 indicates contraction.

The Institute for Supply Management (ISM) Non-manufacturing Index (NMI): The NMI is a composite index of four "sub-indicators", which are extracted through surveys to purchasing managers from around the country, chosen for their geographic and industry diversification benefits. The four sub-indexes: Business activity, New orders, Employment, Supplier deliveries. An Index value over 50 indicates expansion; below 50 indicates contraction.

Consumer Confidence Index (CCI): The Consumer Confidence Index is a well-known proxy for the attitudes of U.S. consumer towards topics such as the business climate, personal finances and spending. In essence, this index attempts to measure the confidence that consumers have in the overall economy. This is important because consumer spending accounts for a large portion of U.S. GDP.

Unemployment Rate: Calculated monthly by the Bureau of Labor Statistics, the unemployment rate is a gauge of the health of the U.S. labor market. High unemployment can stifle the growth of the economy.

Domestic Equity Benchmark Descriptions

Investment Style: Performance of different types of stocks will vary over time. A common way to characterize a stock is by market capitalization (e.g., large cap or small cap) or style (e.g., value or growth).

Large Cap vs. Small Cap: Large companies tend to be more established companies and therefore exhibit lower volatility. Over an extended period of time, expected returns of small cap companies are often higher due to the risks associated with smaller, less established companies.

Value vs. Growth: Value companies typically trade at discount valuations and may pay a dividend. Growth companies are those that are experiencing greater earnings growth prospects.

Large Cap: The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market.

Large Cap Growth: The Russell 1000 Growth Index measures the performance of those Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

Large Cap Value: The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Mid Cap: The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index.

Mid Cap Growth: The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values.

Mid Cap Value: The Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values.

Small Cap: The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Small Cap Growth: The Russell 2000 Growth Index measures the performance of those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values.

Small Cap Value: The Russell 2000 Value Index measures the performance of those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

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Domestic Fixed Income Benchmark Descriptions

U.S. Aggregate Bond: The Barclays U.S. Aggregate Bond Index measures the performance of USD-denominated, SEC-registered, investment-grade, fixed-rate or step up, taxable bonds. The index includes bonds from the Treasury, Government-Related, Corporate and MBS (agency fixed-rate and hybrid ARM pass-through), ABS, and CMBS sectors. Securities included in the index must have at least 1 year until final maturity.

U.S. Treasury: The Barclays Capital U.S. Treasury Index measures the performance of public obligations of the U.S. Treasury with a remaining maturity of one year or more.

U.S. Agency: The Barclays Capital U.S. Agency Bond Index measures the performance of the agency sector of the U.S. government bond market and is comprised of investment-grade U.S. dollar-denominated debentures issued by government and government-related agencies, including FNMA. The index includes both callable and non-callable securities that are publicly issued by U.S. government agencies, quasi-federal corporations, and corporate and foreign debt guaranteed by the U.S. government.

U.S. Corporate: The Barclays Capital U.S. Corporate Bond Index measures the performance of publicly issued USD-denominated corporate and Yankee debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

U.S. MBS: The Barclays Capital U.S. Mortgage Backed Securities Index measures the performance of mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

U.S. Municipal Bond: The Barclays Capital Municipal Bond Index measures the performance of the USD-denominated, investment grade, fixed-rate tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. Securities included in the index must have at least 1 year until final maturity.

General Obligation Bond Index: The Barclays General Obligation Bond Index measures the average market-weighted performance of general obligations securities that have been issued in the last five years with maturities greater than one year.

Revenue Bond Index: The Barclays Revenue Bond Index measures the average market-weighted performance of revenue backed securities that have been issued in the last five years with maturities greater than one year.

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