Fourth Quarter 2014 Market Commentary

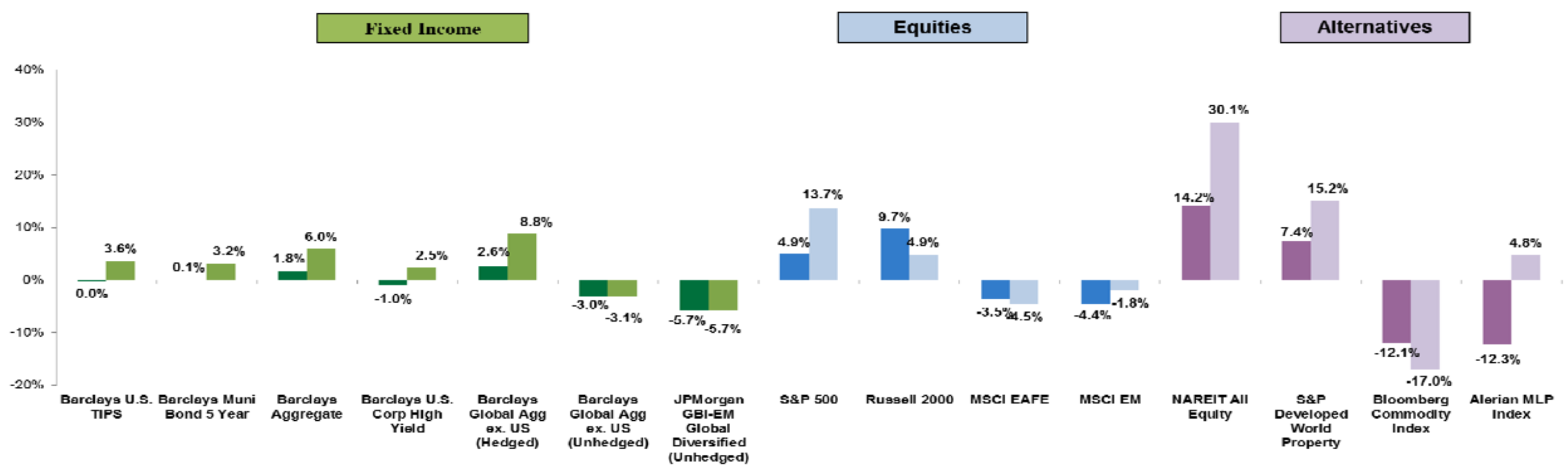
U.S. equity indices reached new all-time highs throughout the fourth quarter while overseas markets continued to disappoint. The U.S. economic expansion gained momentum while other nations continued to grapple with below average growth rates, suggesting a further decoupling of the world's economies.

For the quarter, the S&P 500 Index advanced 4.9% while the Russell 2000 Index of smaller companies rebounded 9.7%. Consumer discretionary, staples, health-care, and utilities were among the top performing sectors, while energy, telecom, and materials lagged. Across market capitalizations, small-cap stocks outperformed mid- and large-cap stocks. No single investment style emerged as a favorite as value fared best among large- and mid-caps but trailed within small-caps.

U.S. fixed income markets also posted mixed results. Treasuries ended higher as the yield on the benchmark 10-year note finished the quarter at 2.17%. Long-maturity Treasuries outperformed their shorter-dated counterparts. Among investment grade corporate securities, utilities outperformed industrial- and financial-related credits. Other sectors, including mortgage-backed securities (MBS), asset-backed securities (ABS) and municipal bonds, also ended in positive territory.

International markets posted mostly negative results as the MSCI EAFE Index fell 3.5%. Among the largest European markets, France and Germany lost 5.8% and 0.4%, respectively. Meanwhile, Spain stumbled 8.2%, while Italy dropped 13.4%. Within the Pacific region, Japan declined 2.4%, while Australia fell 3.6%. In the emerging markets, the MSCI EM declined amid weak performances from select Emerging Asian, Latin American, and EMEA (Eastern Europe, Middle East and Africa) Index countries.

Asset Class Returns



Source: Bloomberg

Key: Left Bar: Recent Quarter
Right Bar: Year-To-Date

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World Market Recap

Economy

- According to the third and final estimate of economic growth released by the Bureau of Economic Analysis, third quarter GDP increased at an annual rate of 5%. Positive contributions came from residential and nonresidential fixed investment, personal consumption expenditures, exports, and state, local, and federal government spending. The fourth quarter GDP advance estimate is due out on January 30th, 2015.

- The Federal Reserve kept interest rates in the 0% to 0.25% range and reiterated its commitment to low rates for a “considerable time” despite progress towards achieving the FOMC’s dual mandate of maximum employment and 2% inflation. The next FOMC meeting is scheduled for January 27th-28th, 2015.

Fixed Income

- U.S. Treasuries ended higher as the yield on the benchmark 10-year note finished at 2.17%, down from 2.49% at the end of the third quarter.

- Investment grade corporate securities also posted gains. Utilities-related issuers, which advanced 3.4% for the quarter, were the best performing credit sector.

- High yield corporate securities were mixed throughout the past three months. For the quarter, BB-rated issues advanced 0.9%, B-rated issues lost 1.5%, and CCC-rated issues declined 3.9%.

- Mortgage-backed securities (MBS) advanced throughout the fourth quarter. A lack of new supply and a renewed interest in the asset class, despite its role in the 2008 financial crisis, drove demand higher for MBS.

- Municipal bonds gained. Ongoing supply constraints continued throughout the fourth quarter as demand persisted to outpace supply. Looking forward to 2015, new issuance is expected to increase as state and local governments’ improving fiscal conditions allow for much needed infrastructure investment and new financing.

U.S. Equity

- U.S. stock indices posted gains throughout the quarter as strong tailwinds from positive economic readings propelled equities higher. The S&P 500 Index rose 4.9%, closing at 2,058. Meanwhile, the NASDAQ Composite advanced 5.8%, while the Dow Jones Industrial Average added 5.2%.

- Consumer-related sectors were among the top performers as sentiment rose. According to Goldman Sachs, lower gas prices have resulted in the equivalent of a $125 billion “tax cut” for American consumers, fueling increased demand for goods and services. Holiday spending increased 5.5% from last year.

- The health-care sector also posted solid gains as M&A activity gained momentum. CareFusion, a manufacturer of intravenous infusion products, soared 31% after it was acquired by Becton Dickinson.

- Energy holdings stumbled 11% as exploration & production, oil equipment, and services companies were negatively impacted by the precipitous drop in oil prices. Shortly after quarter end, U.S. oil prices fell below $50 a barrel for the first time in six years as Russia announced higher than expected production rates and Saudi Arabia held firm on its commitment to not cut production.

- The materials sector dropped primarily due to soft demand for coal, iron & steel, and other nonferrous metals. The drop in demand is primarily due to poor readings from economic indicators in both developed ex-U.S. and emerging markets as GDP growth is expected to disappoint throughout early 2015.

International Developed Markets

- Canada fell 4.6% during the fourth quarter as slumping oil and materials prices weighed heavily on returns. Exports of crude oil, Canada’s largest export, weighed heavily on GDP as a global supply glut negatively impacted the country’s trade balance. In November, total exports fell 3.5%, the largest decline since January 2012, including an 8.3% decline in metal and non-metallic minerals.

- The UK declined 4.2%. British service sector growth, which accounts for 80% of total GDP, slowed throughout December. Additionally, slowing growth rates were observed within the manufacturing and construction industries further adding to fears of a slowing economy. Ongoing economic turmoil in the Eurozone, the UK’s largest trade partner, also caused increased concern for investors.

- The Eurozone continued to experience strong headwinds as economic indicators suggested the currency union’s GDP grew a paltry 0.1% throughout the fourth quarter. Additionally, tensions reignited within Greece as elections were called for early 2015 after the country’s parliament failed to elect a president, fueling fears that the country may exit the Eurozone. Moreover, the Eurozone experienced increased deflation as prices dropped 0.2%, suggesting the ECB may increase its quantitative easing program in January.

- Within the Pacific region, Australia pulled back 3.6% while New Zealand gained 2.6%. Japan declined 2.4% despite ongoing quantitative easing. Prime Minister Shinzo Abe called for early elections as a referendum on his economic policies. Despite his party's victory, disappointing growth numbers continued to weigh heavily on returns.

International Emerging Markets

- Within Asia, China gained 7.2% as the Chinese government fast tracked 300 infrastructure projects in an effort to ensure GDP growth does not slip below 7%. The Chinese central bank also cut interest rates for the first time in two years. India fell 0.7% despite strong readings from economic indicators. Among other large Asian markets, Taiwan gained 1.7%, while South Korea posted a loss of 7.7%.

- In Latin America, Brazil declined 14.8% as the real depreciated by 8%. Shares in Petrobras, Brazil's heavily indebted state owned oil company, fell 50% as the firm twice delayed its earnings report. Elsewhere in the region, Mexico fell 12.2%, while the smaller markets of Peru and Colombia fell 0.8% and 22.9%, respectively.

- Among EMEA countries, South Africa gained 3%. In the Middle East, Turkey increased 11.6% while Egypt slipped 8.6%. Within Eastern Europe, Hungary fell 12.8%, the Czech Republic dropped 15.4%, and Poland fell by 13.9%. Russia ended the quarter down 32.8% as the central bank engaged in emergency open market operations to stabilize the ruble which declined to as low as 67 rubles per dollar.

*All indices are unmanaged and investors can not actually invest directly into an index. Past performance is not indicative of future results.

The S&P 500 Index is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's.

Russell 2000 Index measures the performance of the small-cap stocks.

MSCI EAFE is a market-cap weighted index representing 20 of the developed markets outside North America. These 20 countries include 14 European countries and 6 Pacific countries.

MSCI Emerging Markets is a market-cap weighted index representing 26 of the emerging countries in the world.