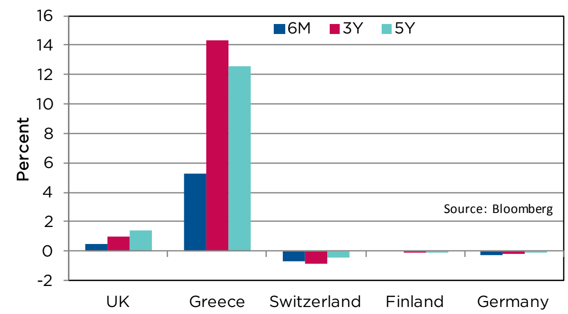
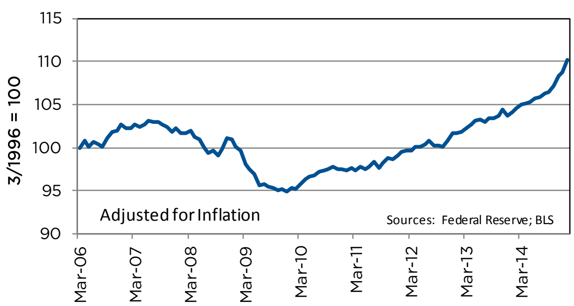
ECONOMIC REVIEW FEBRUARY 2015

Foreign and domestic stocks rebounded as European leaders granted Greece a four-month bailout extension. Depositors moved over €25 billion out of Greek banks in 2015, according to JP Morgan. The substantial loss of collateral and reserves hampers Greek banks' ability to originate loans and borrow to maintain capital ratios. The bailout repayment, which is contingent on expansion of the Greek economy, becomes increasingly difficult when capital flows out of the country. The west coast ports' union and management reached an agreement to resume normal operations. Congestion at the ports will take months to resolve, and likely will hurt Q1 growth. Honda slowed production at its U.S. factories as parts waiting offshore were unlikely to be delivered in time to maintain current production. In a 3-2 decision, the FCC voted to impose net neutrality rules on both wired and wireless internet providers. The vote allows the FCC to regulate internet providers as utilities. With an open-ended diktat, supporters of the move were unsure of the FCC's limits to mandate prices, service and a multitude of regulations. The order was in conflict with a previous law, which prohibited taxes on internet service, because classification as a utility allows a wide range of taxing bodies to impose fees. Telecoms, including Verizon and AT&T, strongly opposed net neutrality rules. Much of the public supported the spirit of the regulation, which was to prohibit internet service providers from degrading data delivery in favor of companies which paid for preferential treatment. Winter weather slammed New England, burying Boston in record snowfalls, while bringing Chicago record-setting cold. Airlines and transport companies scrambled to maintain operations while airplanes were grounded and rails were blocked.

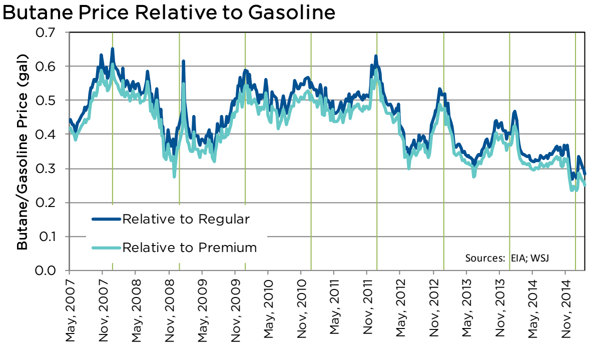
European Yields



Aggregate Pay Driving Growth



Butane Price Relative to Gasoline



Market Returns

As of February 28, 2015

	February	3 Months	YTD
S&P 500	5.8%	2.3%	2.6%
Russell 1000 Value	4.8%	1.3%	0.7%
Russell 1000 Growth	6.7%	3.9%	5.0%
Russell 2000	5.9%	5.5%	2.5%
MSCI EAFE	6.0%	2.8%	6.5%
Emerging Markets	3.1%	-1.1%	3.7%
Barclays Agg	-0.9%	1.2%	1.1%
3-Month T-Bills	0.0%	0.0%	0.0%

Several European sovereign bond yields reached negative territory, with Swiss 10-year bonds yielding -0.045%. German and Finnish five-year bond yields fell below 0%. European countries continued to face a crisis of confidence in their ability to avoid deflation and contraction. Quantitative easing by the ECB helped boost asset prices, though fiscal reforms at the national level remain crucial to long-term recovery prospects.

The NASDAQ Index approached 5000, a level last seen in March 2000. Much of the appreciation, prior to the year 2000, was based upon expectations of potential earnings, of which many companies had little. Current index levels reflect valuations much closer to historical average than back in 2000. Adjusting March 2000 highs for inflation would bring the NASDAQ Index to just over 6900, putting the current level 28% below this level. However, in the current recovery since October 2007 highs, the NASDAQ Index is 55% higher compared to the inflation-adjusted 2007 value. The growth represents a spectacular jump in profitability, especially at companies such as Apple, Microsoft, Google, Amazon and Facebook.

Growth of the NASDAQ Index, driven largely by consumer and ad-based companies, reflects the resurgence of consumer spending, even as corporate budgets focus on cost cutting and productivity enhancement. Since the end of 2009, aggregate pay has strongly outpaced inflation, reflecting higher wages and hours worked. Pronouncements of a prolonged contraction in consumer spending following the credit markets meltdown in 2007/2008 have not come to fruition. Just as corporations took advantage of record low interest rates to borrow, consumers increased their borrowing, excluding housing, which contributed to a rebound in automobile sales and home-related goods.

The return of a strong dollar received criticism from analysts who believe that weaker export demand will cripple growth prospects. What is overlooked is that corporations that purchase imported raw materials and components see a substantial decrease in costs. Domestic manufacturing drives job growth and gains appeal as energy costs fall. The growth in outsourcing to Asia since 2000 was concurrent with a weakening dollar, which contributed to job losses in the United States. Higher energy prices, aided by a weak dollar, hurt consumers tremendously and slowed growth, due in part to rising import costs.

Gasoline prices reversed their rapid descent as crude oil prices rebounded from multi-year lows. The changeover to summer formulations added pressure to gas prices since many refineries lose output during the transformation process. Summer gasoline differs from winter gasoline in that its susceptibility to evaporation must be considerably lower, helping to lower smog and ozone levels. To achieve this, summer gasoline blends contain a richer blend of pure gasoline and oxygenates. In the winter, cheaper fuel stocks are blended with gasoline during refining. Butane, which averages nearly $1.80/gallon less than retail regular-grade gasoline, is a main input during winter. Gas prices in California rose abruptly following a fire at Exxon's Torrance refinery. The refinery's output is around 6.5% of the west coast's total capacity.