# Quarterly Outlook

APRIL 2015

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## First Quarter 2015

A growing divergence in currency and monetary policy between the US and the rest of the world is driving equity markets, contributing to recent volatility and underperformance. The S&P 500 posted modest gains of 0.95% for the quarter, continuing a string of positive returns since the fourth quarter of 2012. The dollar strengthened considerably, with the euro declining steeply against the dollar in the quarter and hitting a 12-year low of $1.05 in March.

Fixed income markets continued to brace for a mid-year Fed rate increase. The benchmark 10-year Treasury continued to fall during the quarter, hitting a low of 1.68% at the end of January. All eyes remained on the Fed, as pundits searched desperately for clues as to when the first rate hike would occur. Oil prices stabilized during the quarter. Inflation remained low, with some deflationary spots around the globe, especially in Europe and Japan.

The economy continued to demonstrate positive momentum in the quarter, with the jobless rate falling to a low of 5.5% in February. Gross domestic product (GDP) grew by 2.2% in the fourth quarter. With the mid-term elections behind us, the US political situation stabilized. Candidates began to line up for the 2016 Presidential elections.

News was not as encouraging overseas, as Greece continued to wrangle with the European Union over revising the terms of its bailout while conflict raged in Yemen, Iraq and Ukraine.

**Going Forward: Tandem's Outlook**

The current bull market, the fourth longest in US history, shows signs of aging. While it has more room to run, we are nearer to the end than the beginning. Tandem expects economic growth to continue at a slower rate that will struggle to offset the inhibiting impact of a stronger dollar on exporters. While stronger consumer spending could spur retail sales, US consumers still appear reluctant to spend. If this trend continues, consumer stocks may be ripe for a pullback.

The widely anticipated rate increase – the first in nine years – should bring some stability to the markets once the initial reaction subsides. Many will attempt to predict the timing of the increase, but the decision is dependent on volatile factors such as unemployment, inflation and the dollar.

Going forward, we expect low inflation, increased market volatility and continued divergence between the US and other developed economies around the world. Although markets may not follow, the US continues to deliver the highest growth rates in the developed world, and capital is likely to continue to flow this way.

Looking further out, we predict slower growth in the US during the next decade and significant change in the economy as a result of global competition.

Whatever markets and economies deliver during the rest of 2015, Tandem remains alert and proactive in monitoring markets and risk.

TANDEM
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