SELECTOR® Money Management
2015 First Quarter Review

Domestic Equities Had A Rough January, But February And March Saw Rebounds And Rotations

Large, mid, and small cap domestic equities oscillated lower in January with a total of five direction shifts. The S&P 500 Index declined -3.11%, while the S&P Mid Cap Index fell -1.12% and the Russell 2000 Small Cap Index dropped by -3.28%. Those choppy declines reversed dramatically in February, with most domestic equity indexes pushing to marginal new highs. March was by far the most interesting month of the quarter as Mid Cap and Small Cap equities continued to rotate higher while Large Cap equities, the champions of 2014, went back into a choppy decline. At the end of the first quarter the S&P 500 Index closed with a gain of +0.95%, the S&P 400 Mid Cap Index gained +5.31%, and the Russell 2000 Small Cap Index was up +4.32%. The first quarter of 2015 was positive for most domestic equity sectors, with the ongoing exception of energy and the curious exception of utilities. The Dow Jones U.S. Oil & Gas Index dropped -2.09% while the Dow Jones U.S. Utilities Index declined by -4.74%.

Domestic Bond Markets Continued To Play Their Counter-Melody to Equity Markets

A strong January was followed by declines in February and then higher prices in March, particularly for high quality bonds. Municipal bonds showed similar action but with a quieter March rebound. High yield bonds reversed their six month downtrend in January and rallied with the Small Cap and Mid Cap equity markets in February and March. At the end of the first quarter, the Markit iBoxx USD Liquid High Yield Bond Index was up +2.20%. The Markit iBoxx USD Liquid Investment Grade Bond Index gained +2.60% in the quarter, the Barclays U.S. Aggregate Bond Index finished +1.61%, and the S&P National Municipal Bond Index was up +0.93%. The ongoing strength of the U.S. Dollar provided positive pressure for domestic bonds as it continued to work higher after breaking a 12-year downtrend in the fourth quarter of 2014.

Perhaps The Most Interesting Reversal Of The First Quarter Occurred With International Equities

International equities had a tough 2014, with most indexes locked in a downtrend the second half of the year. From its June 19th high to its January 6th lows the S&P Europe 350 declined by -17.39%. Emerging markets held on a little longer, but from its September 5th high to its December 16th low the MSCI Emerging Markets Index fell -18.81%. The broader MSCI EAFE Index was at its 2014 high on July 3rd and dropped -15.42% by October 16th. While domestic equity markets were struggling in January, international equities were rallying, and in February of 2015 there were too many downtrend breaks too count. These breakouts were successfully tested in early March and by the end of the first quarter some of the best performances YTD were being recorded by international equity indexes. The MSCI Russian 25/50 Index was up +17.54%. The MSCI Japan Index was +10.21%. MSCI Germany was up +8.28%, helping pull the MSCI EAFE Index to a +4.88% gain. The S&P Europe 350 Index gained +3.49%.

Progress Was Made On Most All Financial Fronts During The First Quarter

The most promising developments were the positive rotations in domestic Mid Cap and Small Cap equities, in High Yield Bonds and, last but not least, with International equities. These are financial sectors that have all been out of favor for some time, yet the long-term Bull Market still made progress. It will be interesting to see how the rest of the year develops with these sectors in play once again.

Edward D. Foy
Manager, SELECTOR® Money Management