VANTAGE CONSULTING GROUP
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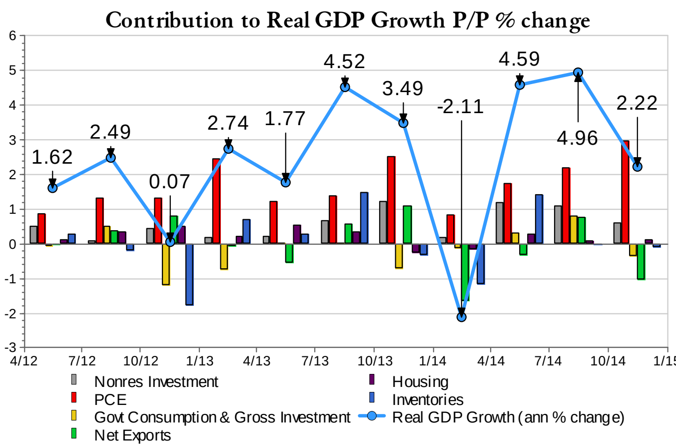
Market Review

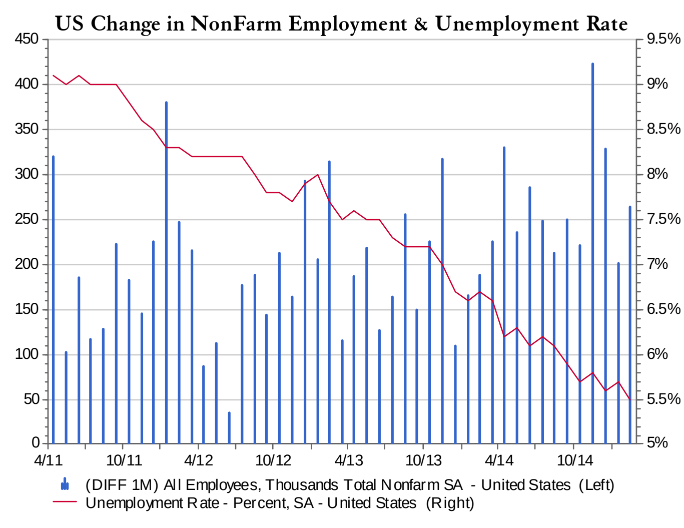
March 2015

Economic Review

U.S. Real GDP grew at 2.2% during the fourth quarter of 2014 according to the third estimate released by the Bureau of Economic Analysis. The figure remained unchanged from the prior estimate as increases in exports and personal consumption expenditures (PCE) were offset by weaker inventory investment and government spending. GDP increased at a 2.4% annualized rate last year.

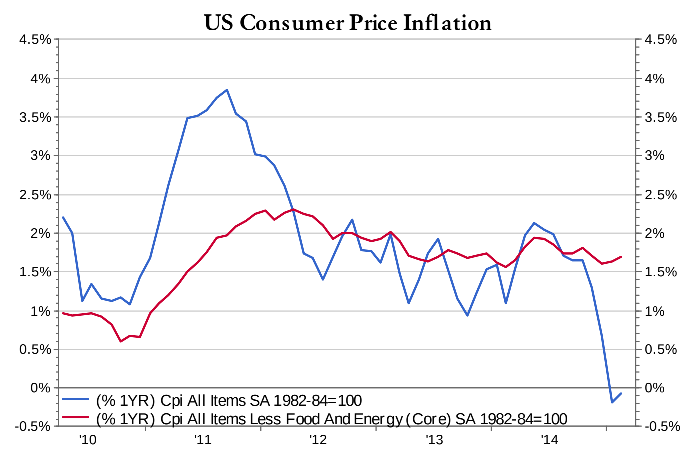


Total nonfarm payrolls increased more than expected, with the economy adding 295,000 jobs during February. The average monthly gain over the prior twelve months has been 266,000 jobs. The unemployment rate edged down 0.2% to 5.5% in February. The unemployment rate has declined 1.2% over the last twelve months. The underemployment rate (U6) fell to 11%. The civilian labor-force-participation-rate, at 62.8%, has remained within a narrow range of 62.7% to 62.9% since April 2014. Average hourly earnings rose by 3 cents to $24.78 in February and have increased 2.0% over the year.



Housing data were mixed in March. Existing homes sales rose 1.2% month over month (MoM) in February and 4.2% year over year (YoY), according to the National Association of Realtors. New home sales increased +7.8% MoM to a 539,000 annualized rate (a.r.), the highest annual sales rate since February 2008. Housing starts, however, fell 17% MoM to 897,000 a.r. on account of cold weather. Building permits rose 3.0% MoM to 836,000 a.r. as permits for single family homes declined while multi-family unit permits grew stronger.

Headline CPI, up for the first time in four months, increased 0.2% MoM in February as energy prices stabilized. Headline CPI is flat for the year. Core CPI, which excludes food and energy costs, also rose +0.2% (vs. expectations of +0.1%) in February and is up +1.7% YoY, as expected. The Personal Consumption Expenditure (PCE) Deflator, is up only 0.2% YoY while Core PCE, which excludes food and energy, is up 1.3% YoY. Measures of Breakeven inflation dipped in March. The 5 year/5 year forward breakeven inflation rate fell 9 bps to 1.89%.



The March Federal Open Market Committee (FOMC) meeting minutes was notable in that the previously used phrase: "can be patient in beginning to normalize the stance of monetary policy" was dropped. The minutes also noted that "economic growth has moderated somewhat" and "market based measures of inflation compensation remain low". Market reaction to removing the word "patient" was reflected in an increased probability of a rate hike in June or September while the Fed's downward revision of growth and inflation expectations were generally viewed as dovish. The FOMC next meets on April 28th and 29th.

Eurostat's final estimate of Q4 2014 Eurozone real GDP growth was 0.3% quarter-over-quarter, confirming the previous estimate. On an annualized basis, Eurozone's

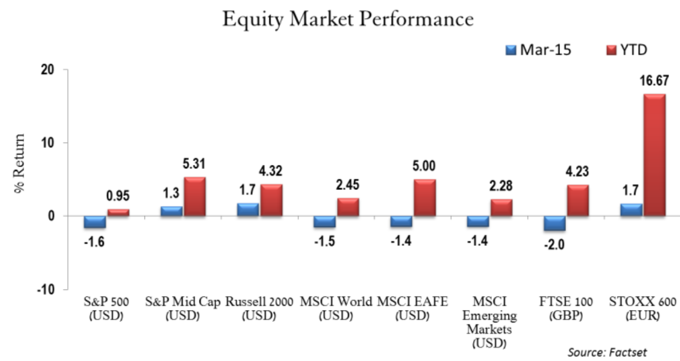
GDP growth was 0.9%, which was also unchanged from the initial reading. Fourth quarter GDP growth was broader based as compared to previous quarters which had been largely fueled by consumer spending. Private investment grew 0.4% in the fourth quarter after recording no growth in the third quarter. The European Central Bank (ECB) raised its 2015-2017 growth forecasts, as the bank now expects growth of 1.5% in 2015, 1.9% in 2016, and 2.1% in 2017. In addition, the ECB expects inflation to reach 1.8% by 2017, which is slightly below their 2% target. Eurozone headline CPI for February was -0.3%, higher than the -0.6% reading in January and the expectation of -0.4%. Cheaper energy prices explain much of the deflation, as energy prices are nearly 8% lower year-over-year. Core CPI, which excludes food, energy, alcohol, and tobacco costs, rose by 0.6% in February, in line with forecasts.

In the UK, the Office for National Statistics' (ONS) estimate for February inflation was 0%, the lowest level since comparable records began in 1989, and down from 0.3% in January. The government expects inflation to turn negative in March, driven by lower gas utility prices, before turning positive in the second quarter. Bank of England (BoE) Governor, Mark Carney, announced that he did not expect the BoE to cut interest rates further, attributing the low inflation to falling energy prices and not structural economic problems. The job market in the UK remains strong, as the unemployment rate held steady at 5.7%, the number of people with a job is at a record high, and wage growth is outpacing inflation.

In Japan, consumer prices, as measured by CPI, were unchanged on a year-over-year basis, though core CPI rose 2%. Weak inflation, falling household spending and poor retail sales data have increased pressure on the Bank of Japan and Prime Minister Shinzo Abe to expand monetary policy further. In China, industrial production picked up in March, as government stimulus programs appear to have stabilized the economy. China's official PMI rose to 50.1 March after registering 49.9 in February and showed expansion (above 50 signals expansion) for the first time since December. HSBC's estimate of Chinese manufacturing PMI was 49.6, slightly higher than the 49.2 expectation.

Equity Markets

Global equities declined in March with the MSCI World Index falling 1.5%. Domestic large cap stocks, as measured by the S&P 500, declined 1.6%, on mixed earnings announcements, falling oil, and a stronger dollar. Domestic mid-cap stocks, as measured by the S&P 400 returned 1.3%, while the Russell 2000 small-cap index finished the month up 1.7%. The headline indices for Europe (STOXX 600) and the UK (FTSE 100) gained 1.7% and lost 2.0%, respectively. At the sector level, Materials and Technology led the US markets lower, with losses in March of 4.7% and 3.3%, respectively. Health Care was the only S&P sector to finish the month higher, returning 0.9% in March.



The S&P 500 traded choppily throughout the month, as the index only advanced consecutive days once in March. The index was down 2.98% through March 11 before trading up to close the month down 1.6%. Market volatility, as measured by the CBOE Market Volatility Index (VIX), rose to close the month at 15.29, up from 13.04 at the end of February, but well below the long-run average of 20. The volatility of European stocks, as measured by the Euro Stoxx 50 VIX Index, rose throughout the month, closing March at 21.10, up from 17.75 at the end of February.

Bond Markets

Weaker than expected economic data and the perceived dovish stance from the Fed at its mid-March meeting helped U.S. Treasury rates to decline, reversing some of February's increase. Record investment grade supply weighed on credit spreads with the Credit Index OAS widening by 5 bps to close March at 124 basis points. With historically low European government bond yields, corporations are issuing record amounts of debt.

The 10-year U.S. Treasury bond yield declined 7 bps to close March at 1.93%. The 30-year U.S. Treasury bond yield fell 6 basis points to close at 2.54%. The UK 10-year benchmark gilt yield declined 20 bps, to close at 1.60%. The yield on German 10-year benchmark bonds almost halved, declining 13 basis points to close at 0.151% at the end of March.

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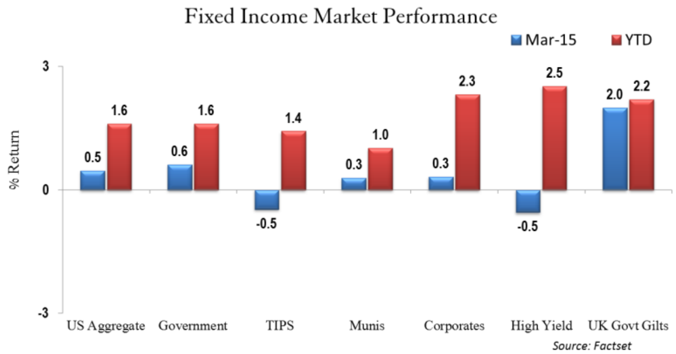
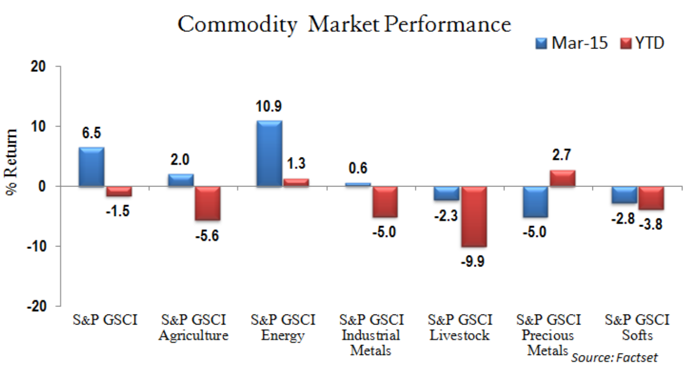


Commodities

The S&P GSCI Total Return Index, a headline index of 24 commodities, returned -6.8% in March and is now down 8.2% through the first quarter of 2015. Commodity markets, led lower by energy and agricultural commodities, has fallen more than 40% in the last 12 months. The decline in March was broad, with only the Livestock sub-index posting positive returns. The Precious Metals sub-index dropped 2.2% in March, and is now down 9.2% over the past 12 months. Gold traded choppily in March, but ultimately closed at $1,183/oz. after closing February at $1,213/oz. The Softs sub-index lost 8.3% in March, led lower by Sugar and Cocoa, which each lost over 10%. Sugar and Cocoa have fallen due to increased supply outlook and improved weather.

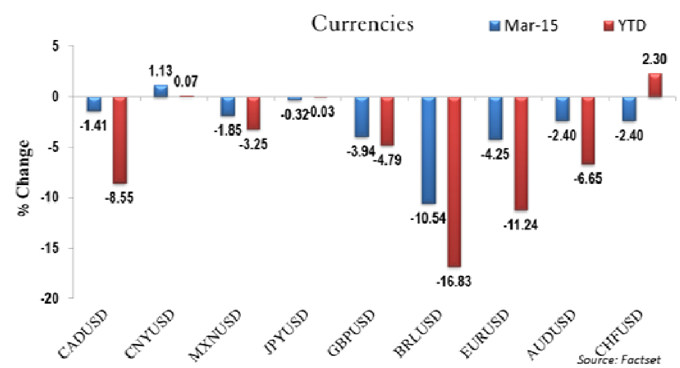


The Energy sub-index reversed February's gains, losing 10 % in March; the sub-index has lost 8.9% year-to-date, and has declined 49.3% over the last 12 months. West-Texas Crude Oil opened the month at $49.76/bbl. and traded down through the mid-month, before rallying to close the month only slightly lower at $47.60/bbl. Brent Crude fared worse in March, as the global oil benchmark traded down throughout the month to close $7.77 lower at $56.21. The U.S. Energy Information Administration (EIA) announced that commercial crude inventories had reached 466.7 million barrels, the highest level in more than 80 years, while gasoline inventories declined slightly to 233.396 million barrels, which is more than 5% above the 5-year average.

U.S. refining margins were mixed in March, as Refined Products outperformed Brent Crude but underperformed West-Texas Crude. Heating Oil [-12.3%], Gasoline [-10.3%], and Gasoil [-9.1%] all posted large losses in March. The U.S. national average price of gasoline increased slightly to $2.43 per gallon. In addition, U.S. consumption of gasoline is at a 30-year low, driven by improvements in vehicle fuel economy, lower vehicle count per capita, and a decline in distance driven per capita.

Currencies

The US Dollar rallied for the ninth consecutive month against a basket of peers in March even with the dovish tone from the mid-month Fed meeting. The US Dollar Index appreciated 3.3% in March but declined 1.8% during the last twelve days of the month.



The Euro declined for the ninth consecutive month against the US Dollar, driven by the commencement of QE by the ECB. The Euro fell to 1.0458 against the dollar mid-March, the lowest level since January 2003, before recovering in the latter half of the month. For the month, the Euro fell -4.25% against the dollar to close at 1.074 USD/EUR. The British Pound depreciated 3.94% against the US Dollar, in March to close at 1.4845.