GREENLEAF® TRUST

Perspectives

A Greenleaf Trust Newsletter

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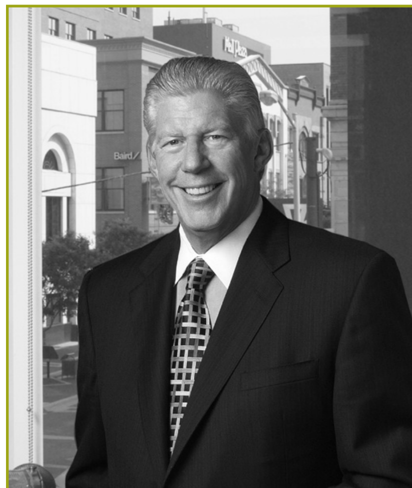

William D. Johnston
Chairman, Greenleaf Trust

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Economic Commentary

Any observer or analyst of economic data would have to be disappointed in the release of the Q1 estimates of GDP growth for 2015. An anemic + .2% was estimated and when announced was greeted by a robust decline in the equity market. The contributors to the unexpectedly weak results were an assortment of conditions that in the main are not likely to change in the near future. Exports shrunk by 7.2% and were largely the continuing result of a strong dollar vs. our trading partners' currency. As a reminder, when our currency is strong in relationship to our trading partners, it makes our exported goods more expensive to sell in international markets and conversely their goods cheaper to sell into our markets. It also then would not surprise us to see our trade gap widening as a result.

Non-residential fixed investment is a strong component of our GDP growth data. It is a large category of business investment in all areas necessary for the logistics of manufacturing and supply chain management. In Q4 of 2014 this category grew by 4.7% and reportedly fell by a corresponding 3.4% in the most recent quarter. Peeling back the layers of the onion on that data set we see the accumulating impact on lower oil prices in the energy sector. The firehose feeding capital investment in the sector has been turned off and this has begun to impact suppliers far up and down the food chain and for almost every region in the country. The decline in both payrolls and investment in the energy sectors does not appear to have bottomed and thus this component is likely to remain a drag on the economy.

While it is easy to place a portion of the blame for tepid results on weather, there is some reality to the perception that another really severe winter in a dense population zone contributed to lower than expected results. For the last five years Q1 GDP results have averaged +.2% vs. an average of 2.9% for all other quarters. Data collection was supposed to have been revised to account for seasonal weather impact but something is amiss. Intuitively it doesn't make sense for a single quarter to be so uniquely different for such a consistent period of time.

Adding to the accumulated results of lower energy prices, a stronger

Commentary, continued

dollar, and the severe winter was a disruptive longshoreman's work stoppage in California that not only slowed but eventually stopped a very large import path of goods to our country. The logistical pathway not only included goods available for sale but also raw materials and parts waiting for assembly.

Surprisingly, reported business inventories grew during the quarter and were largely impacted by energy sector data that affirmed very little change in surplus product. Not good for the sector and for the next few quarters of GDP estimates.

Though the report was weak, there were positives to cling on to and the Fed was quick to do so. Disposable personal income was up +6.2% and consumer spending grew by 1.9%. Perhaps relying on the knowledge that the consumer drives 70% of GDP growth, the Fed governors were not overly alarmed at the results and fell sway to the belief that future quarters will reflect demand from a strong consumer who according to survey results feels more confident about their economic future than any time in the past seven years! This sentiment is important because it tends to be a future indicator. Confidence allows decisions to be made and some risk to be taken. Where we see consistent periods of time where confidence measures remain high we also see periods of higher GDP growth result. Inflation by several methods of measurement remains well below the Fed target of 2%. Currently the Fed's focus must be on sustained growth driven by the economic activity of a more fully employed workforce. Raising rates into an environment of low inflation, weak GDP growth and marginally improving workforce data is not prudent and not likely to be done. The wind is neither at our back nor in our face, yet we have elements of both — which is squarely where we have been over the last 72 months. Low oil prices and a strong dollar won't change a great deal in the coming months. An economy that grows at 2% will not add many new jobs and therefore wage inflation will remain low. We have approximately two million more people working than we had a year ago which is important with respect to the consumer's health and probably reflects why consumers are more confident than they were even six months ago. My hunch is that the Fed remains in their accommodative stance for some months to come. Those expecting higher rates will not see them soon.

"The wind is neither at our back nor in our face, yet we have elements of both — which is squarely where we have been over the last 72 months."

Both major political parties will be holding their nominating conventions in sixteen months! That is either alarming or comforting to you, but nonetheless a reality. Potential candidates who are somewhat serious about running are announcing their candidacy while

others are testing the water to determine if they have the capacity to raise what will certainly be $1.5 billion necessary to secure the office. That was not a misprint; in 2012 the combined total of both parties reached a staggering $2.4 billion and that number did not reflect party candidates that dropped out of the race or who were not a registered candidate of either the Republican or Democratic party.

Analysts examining the race for the White House fully expect that the 2016 total will be much closer to $3 billion.

Currently, several potential candidates have announced that they are running. Why announce? Money and regulation are the simple answers. The Federal Election Commission gets involved if candidates raise money and create PACs (Political Action Committees) without declaring why. Some candidates have access to large donor bases and are already office holders and thus they don't require the more restrictive oversight of an announced candidacy. Lesser candidates (from a resource perspective) need access to cash early on to finance their message and therefore need to announce, register and get to potential donors. Let's recap who has announced on each side of the aisle.

"Both major political parties will be holding their nominating conventions in sixteen months..."

Republicans:

NAME	ANNOUNCEMENT DATE	SUPPORTERS
Mike Huckabee	May 5th	Social Conservatives / Evangelical Christians
Ben Carson	May 4th	Grassroots conservatives
Carly Fiorina	May 4th	Business / Eclectic
Rand Paul	April 7th	Tea Party / Libertarian
Marc Rubio	April 13th	Establishment Conservatives
Jeb Bush	not yet	Establishment Conservatives
Ted Cruz	March 23rd	Far right /Tea Party
Chris Christie	not yet	Moderate Establishment Conservatives
Scott Walker	not yet	Small Government / Social Conservatives
Rick Perry	not yet	Small Government / Immigration Hardliners

Analysis

It is a large group even at this point and there well could be more to split up the base of social conservatives/evangelical Christians and immigration hardliners. Those on the far right of the equation have lots of candidates to split their vote and those who are more middle establishment have some company as well. It will make for crowded stages in the debate season and therefore small opportunities to make a presence. The candidate that breaks the bank with donors will rise to the top of the primary season, convention attendees and delegates in a crowded field may well determine the surviving candidate.

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Commentary, continued

Democrats

CANDIDATE	ANNOUNCEMENT	SUPPORTERS
Bernie Sanders	May 5th	Far Left Democrats / Socialists
Hillary Clinton	April 29th	Mainstream Democrats / Party Loyalists
Jim Webb	not yet	Socially Conservative / Economic Populists

Analysis

All of the candidates are not in yet and thus we can expect a few more. The Democratic establishment does not want a coronation of a political dynasty family, yet they know Hillary Clinton is their best candidate and thus they want her. The best scenario is that a pretty strong alternative joins the fray (none currently present), gives her enough of a test to demonstrate that she won the battle so all can close ranks behind her. Currently it is not much of a race on the Democratic side of the aisle.

Issues certainly likely to be central to the campaigns are: immigration reform, ISIS, national security, economic disparity and restoration of opportunity, entitlement reform, health care, social equality and several more. To be certain there will be a complex host of issues for candidates to differentiate themselves on. The country is filled with a significant amount of angst and the next President will find themselves fully challenged. No doubt about it.

Bicycle Spokes

Michael F. Odar, CFA
President

Sometimes it can be difficult to fully recognize the significance of a minor life inconvenience as it's happening. I got the time of a foundation board meeting wrong and arrived an hour early for the meeting on a day I wished had more hours in it. Being early, though, allowed me to reconnect with a client I had not seen in a while who always has good business advice. Everything for a reason.

When the toilet in the house we were renting over spring break backed up for the second time, the word "significance" did not come out of my mouth. If the toilet had been working properly though, I would not have met Brian Frosch. Brian handled maintenance for the property and had a unique jewelry business on the side. He made bracelets out of repurposed bicycle spokes and glass. What was the significance of the bicycle spokes? Why not use normal wire? His message below resonated with me.

It takes many components working together to make a bicycle fully functional. I'd like for you to focus on the wheel, specifically the spoke and its function. I view the spoke as a representation of people working together. If you look at the mechanical function of a spoke when it is on a bike, the spokes all work together; however, the spoke nearest the ground sees almost no load because the load pressure is distributed among the top and side spokes as tension members. I'm sure you've witnessed friends, family and even strangers take the pressure off others when they are on the bottom… at some point in our lives we have been this bottom spoke and someone has helped us out. Just like the top and side spokes, we must be willing to look for ways to help others and take the load off of them when they are on the bottom. When you have people working together the wheel functions properly and good things happen!

The bicycle spoke and wheel provided an interesting teamwork analogy and the message resonated with me because of our commitment to teamwork at Greenleaf Trust. It's more than a word to us and I know our clients and communities we serve benefit from our commitment.

> "If you look at the mechanical function of a spoke when it is on a bike, the spokes all work together…"

Brian's message also resonated with me in the wake of an award I am proud to announce we recently received. In April, we won the STAR award for Employee Volunteer Group. The STAR awards have been a part of the Kalamazoo community for 30 years and STAR is an acronym for Sharing Time And Resources. As part of the wheel in our community, Greenleaf employees gave more than 3,945 volunteer hours to a variety of philanthropic organizations and projects in our community. What makes the award even more special is that we were nominated by a client — Family & Children Services in Kalamazoo. When you have people working together the wheel functions properly and good things do happen!

Ean P. Hamilton, Esq.
Trust Relationship Officer

Ultimate Peace of Mind—Creating Your Digital Estate Plan

Creating a comprehensive estate plan has many benefits including, among other things, avoidance of probate, asset preservation, tax savings, and incapacity planning. However, one of its biggest benefits is the peace of mind it provides while you are alive that your wishes will be fulfilled after you have passed away. A Trust, Will and Power of Attorney are all pieces of the puzzle that when put together, complete your estate plan, but as technology continues to expand there may be one final piece of the puzzle to truly secure that desired peace of mind—creating your digital estate plan.

Although it may sound complicated, a digital estate plan is nothing more than making sure someone, besides you, knows the answers to the following questions:

- What accounts do I own that are accessed online?
- What are the passwords to these online accounts, and where do I store them?
- Who do I want to have access to these accounts after I die?
- What should happen to these accounts after I die?

Creating your digital estate plan can be as informal as writing down the names of all of your accounts and login information, making sure a trusted person knows where this information can be found and how you wish for the online accounts to be handled after your death.

First, make a list of all of the accounts that you regularly access online. Examples of accounts that many of us access online include:

- Bank and brokerage accounts;
- Credit card or loan accounts;
- Online retailers (Amazon, iTunes) or utility bill accounts;
- Email and photo sharing accounts;
- Blogs;
- Facebook, Twitter or other social media accounts.

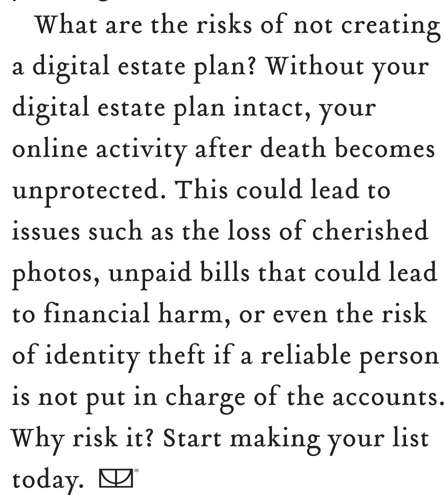
Next, list the login information for each account, including username or password and any other security information that is requested by the company to log in to the account. Make sure you regularly update your list to ensure passwords are accurate and new accounts are added.

Pick a person whom you trust to carry out your wishes for your accounts after your death. It is important to let this person know in advance that you've chosen them as your "digital Executor" so that they are prepared to take action. Most clients pick the same person whom they've selected as their attorney-in-fact or the Executor of their Will. Be sure to

> "... as technology continues to expand there may be one final piece of the puzzle to truly secure that desired peace of mind—creating your digital estate plan."

let this person know where you've stored the important information regarding your online accounts. A great place to keep your list is in a safe deposit box or with your other estate planning documents.

Finally, one of the most important aspects of creating your digital estate plan is leaving clear instructions on how you want your accounts to be handled post-death. What should happen to credit card or loan accounts that are currently signed up for paperless billing that an executor would likely not discover without knowing of its existence? Should social media accounts be deleted or should the account be turned into a memorial



where friends and family can post memories and photos? If these questions are answered while you are still living, you save time and clear up any uncertainties for grieving loved ones once you're gone.

What are the risks of not creating a digital estate plan? Without your digital estate plan intact, your online activity after death becomes unprotected. This could lead to issues such as the loss of cherished photos, unpaid bills that could lead to financial harm, or even the risk of identity theft if a reliable person is not put in charge of the accounts. Why risk it? Start making your list today.

"Finally, one of the most important aspects of creating your digital estate plan is leaving clear instructions on how you want your [online] accounts to be handled..."

Brandon D. Bauer
Wealth Management Associate

Tax-Efficient Withdrawal Strategies — The Gumby Effect

For many of our clients, deciding which accounts to withdraw funds from during retirement is top of mind. The rule of thumb has generally been to withdraw monies from taxable accounts first, followed by withdrawals from tax-deferred (traditional IRA) accounts and finally tax-free (Roth IRA) accounts. This frame of mind is not new, as some large investment firms have advocated such conventional wisdom for years. But what if conventional wisdom isn't necessarily true? What if there is a way to stretch your money further through a thoughtful distribution strategy? While we do not have the skills of David Copperfield and cannot grow you a money tree, there may be a way to stretch your money a little further… just like Gumby!

"… there may be a way to stretch your money a little further… just like Gumby!"

You are in Business with the Government

Congratulations to any of you that have tax-deferred accounts (TDA), you are essentially business partners with Uncle Sam! If you pay yourself, you must also pay your business partner. In the case of a TDA, your business partner is the government and their pay is coded as tax. The better you do, the better your partner does. With that being said, most disbursements from a TDA will be taxed at your ordinary income tax rate, while long term gains within your taxable accounts will be subject to capital gains rate. Major exceptions are interest income (fixed income interest payments) and capital gains held less than 1 year, which are taxed at your ordinary income tax rate. While in a number of circumstances, this makes a case for keeping interest income producing assets within tax deferred/exempt accounts, it begs the question: Which account(s) do you want to take distributions from during retirement in order to maximize your portfolio's longevity?

Withdrawal Strategies

It is possible to add years to the life of your portfolio based upon the order in which you withdraw your assets. As mentioned, what convention suggests (i.e., withdraw from taxable accounts first) may not be the most efficient strategy. For example, in years that you accumulate large medical bills or have significant charitable donations, you may have sizable deductions on your income tax return. Should this be the case, you may want to withdraw funds from a TDA as opposed to a taxable account, as you could be in a lower marginal tax bracket for that particular year. By withdrawing money from a TDA in years that you are in a lower tax bracket you

are potentially lengthening the life of your portfolio.

Let's analyze another scenario. Suppose you don't have large medical or charitable contributions in retirement. You could first withdraw from your taxable account until it is exhausted, followed by withdrawals from your TDA. While working closely with your accountant, you would withdraw an agreed upon annual amount from your TDA, bringing you to a predetermined tax bracket. You then withdraw any additional needed funds from a tax exempt account (TEA). This assumes you have established a Roth IRA prior to executing this strategy. This strategy allows you to stay in a lower tax bracket, thus preserving your wealth and paying your "business partner" less in taxes.

Roth IRA Conversion

Often times clients convert funds from a traditional IRA to a Roth IRA, with the idea being to pay the taxes now and earn tax-free growth moving forward. These conversions are most efficient when executed in years you are in a lower tax bracket and when you have a long term time horizon. The conversions can be coupled with withdrawals from your taxable accounts or a TDA, up to an amount that will not push you into a higher tax bracket. Again, working with your CPA to execute this strategy is critical.

Once traditional IRA funds are converted to a Roth IRA, you have until October 15th (you would need to file a 6-month tax extension past the April 15th deadline) of the following year to either recharacterize your conversion or keep it. This can be a huge advantage, as you have the ability to redact your decision and keep the funds within a traditional IRA without paying taxes or penalties. If the rollover Roth IRA account grows, you have earned money on which you will not be required to pay taxes on the distribution. You are able to convert traditional IRA funds to a Roth IRA within separate accounts as well. A potential strategy could be to have one account invested in stocks and the other account invested in bonds. At the end of the year you are able to keep the account that has performed better as a Roth IRA and recharacterize the account that has not done as well back to a traditional IRA.

What is the Best Withdrawal Strategy?

Studies have shown that selecting the proper withdrawal strategy in retirement can increase the longevity of a portfolio by over 6 years! The strategy that has shown the longest portfolio longevity includes making withdrawals from taxable accounts first (unless you have high medical expenses or charitable contributions). This is coupled with employing the Roth IRA conversion and

"Studies have shown that selecting the proper withdrawal strategy in retirement can increase the longevity of a portfolio by over 6 years!"

Withdrawal Strategies, continued

“While the strategies mentioned [here] can be helpful, it is best to communicate and coordinate such strategies with all of your advisors in order to ensure your financial goals are met.”

recharacterization strategy with two separate conversions (possibly more), while retaining the higher value Roth account and recharacterizing the lower value Roth account back to a traditional IRA. Once the taxable accounts have been exhausted, studies show that one should withdraw monies from a TDA and TEA simultaneously. It is important to note that this relates solely to a withdrawal strategy and not estate planning, as such goals may result in different strategies. Be careful not to withdraw too much from a TDA, which could possibly cause you to be in a higher tax bracket. This may be unavoidable depending on your desired annual withdraw rate. One additional thing to keep in mind is that the majority of medical expenses occur in the last 6 months of an individual’s life. With this being said, holding some TDA assets back to offset common end of life medical expenses may be prudent from a tax planning perspective. While the strategies mentioned above can be helpful, it is best to communicate and coordinate such strategies with all of your advisors in order to ensure your financial goals are met.

Regardless of market performance, following advanced tax-efficient withdrawal strategies may improve the longevity of your assets and stretch them like Gumby!

More Workers are Planning to Delay Retirement

Lorey L. Matties
Participant Services Coordinator

Offsetting expectations of an impending retirement tsunami as Baby Boomers leave the workforce, the age at which workers expect to retire has been steadily rising. In 1991, just 11% of workers expected to retire after age 65. Twenty-four years later, in 2015, 36% of workers report that they expect to retire at age 65, and 10% don't plan to retire at all, according to the 2015 Retirement Confidence Survey (RCS).

The RCS findings, released in April 2015 by the nonprofit Employee Benefit Research Institute and research firm Greenwald &Associates, also turned the question around and found that the percentage of workers expecting to retire before age 65 fell from 50% in 1991 to 25% in 2015.

But this trend of increasing retirement age expectations may be slowing. Between 2009 and 2012, 20-25% of workers reported that the age at which they expected to retire increased in the past year. Since that time, however, fewer workers have reported postponing the age at which they expect to retire. Only 13% of workers report increasing the age at which they expect to retire in the past year, compared with 22% in the 2013 RCS.

Workers planning to delay retirement gave the following reasons:

- The poor economy – 25%
- Inadequate finances or can't afford to retire – 18%
- A change in employment situation – 17%
- Needing to pay for health care costs – 12%
- Lack of faith in Social Security or government – 9%
- Higher-than-expected cost of living – 9%

But the 2015 RCS also found that one in two Americans who planned on working longer found themselves retiring unexpectedly due to a hardship such as a health problem or disability (60%), though some said they retired early because they could afford to do so (31%).

This tendency to retire earlier than planned may explain the considerable gap that exists between workers' expectations and retirees' expectations.

Income Expectations

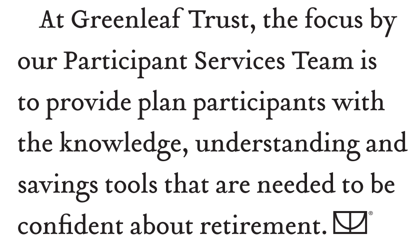
Approximately 56% of workers expect to be able to manage in retirement with no more than 70% of their pre-retirement income. This ratio appears to be in line with retirees' reported experience: 57% of retirees say their income in retirement is no more than 70% of their pre-retirement income.

"... the percentage of workers expecting to retire before age 65 fell from 50% in 1991 to 25% in 2015."

Workers Delay Retirement, continued

Employees expect to draw income from a wide variety of sources, including from an employer-sponsored retirement savings plan (74%), an individual retirement account (69%), and other personal savings and investments (66%). Seventy-three percent expect part-time employment to provide them with a source of income in retirement, and 55% expect to receive income from an employer-sponsored traditional pension or cash balance plan.

In contrast to workers, retirees are less likely to expect to rely on personal savings or part-time earnings for their income in retirement, highlighting the importance of saving through workplace retirement plans while employees have the opportunity to do so.



At Greenleaf Trust, the focus by our Participant Services Team is to provide plan participants with the knowledge, understanding and savings tools that are needed to be confident about retirement.

If you'd like to join us in our efforts to conserve natural resources and create a greener environment, you may choose to save paper by receiving email notifications to view your statement online.
Simply give us a call at 269.388.9800 and ask to speak with a member of your client centric team.

The Final Countdown – Preparing for the Next Rate Hike Cycle

Daniel C. Haines, CFA
Fixed Income Analyst

Introduction

The last time the Federal Reserve (Fed) started a cycle of interest rate hikes (June 30, 2004), the iPhone didn't exist, Lehman Brothers was a top investment bank and Facebook had just been launched by a Harvard sophomore named Mark Zuckerberg. Since then, the financial landscape has changed meaningfully. We've experienced a global financial crisis and its repercussions, including rounds of quantitative easing and an economic recovery that has been slower than expected.

As we think about the next rate hike cycle, which is expected to begin later this year (likely September or December), it is important to consider how this time may be different from past interest rate cycles and the impact these differences could have on portfolios. For this expected cycle, there are three factors to focus on: where rates are currently, how fast they could increase, and how high they could go. Our view is that, relative to history, starting rates are lower, the increase in rates will likely be more gradual and the ending rate level will likely be lower.

"...it is important to consider how this time may be different from past interest rate cycles and the impact these differences could have on portfolios."

Fed Rate Hike Cycles

START	END	LENGTH (MONTHS)	FED FUNDS TARGET RATES			TREASURY RATES (START OF CYCLE)		EXPECTED AVERAGE 10 YEAR INFLATIONS
			START	END	CHANGE	5 YEAR	10 YEAR	
May-83	Aug-84	15.5	8.500%	11.750%	3.250%	9.82%	10.26%	5.70%
Dec-86	Sep-87	9.5	5.875%	7.250%	1.375%	6.67%	7.12%	4.00%
Mar-88	Feb-89	11.0	6.500%	9.750%	3.250%	8.03%	8.56%	4.30%
Feb-94	Feb-95	12.0	3.000%	6.000%	3.000%	5.32%	5.94%	3.60%
Jun-99	May-00	10.5	4.750%	6.500%	1.750%	5.67%	5.81%	2.60%
Jun-04	Jun-06	24.0	1.000%	5.250%	4.250%	3.81%	4.62%	2.50%
Average		13.6	4.938%	7.750%	2.813%	6.55%	7.05%	3.78%
Current (4/27/15)			0.250%			1.33%	1.92%	2.30%

Sources: The Federal Reserve, FRED, Bloomberg, Blue Chip Economic Forecasts.

Factor 1: Where Rates Are Now

The first factor to consider is current bond yields. As of April 27, 2015, the 5 year Treasury bond yielded 1.33% and the 10 year Treasury yielded 1.92%. As you can see from the chart above, these levels are much lower than the levels at the start of the past six rate hike cycles, when 5 year and 10 year yields averaged 6.55% and 7.55%, respectively. When prices on bonds fall, there is an income component to offset some of that decline. However, with today's low rates, there will be less income to offset any price declines.

Final Countdown, continued

"As the Fed contemplates the next rate hike cycle, it is expected that the pace of hikes will be more gradual this time."

Factor 2: The Pace of Rate Hikes

Next, it is important to consider the pace of rate hikes. Much has been made of the timing of the first rate hike. While this is noteworthy, the pace and total number of rate hikes will have a larger impact on bond prices. The past 6 rate hike cycles lasted between 9.5 months and 24 months. The average increase in rates was around 2.5% per year. In the previous rate hike cycle (2004-2006), the Fed increased the Fed Funds rate by 25 basis points each meeting (they usually meet eight times a year) as the rate went from 1.00% to 5.25% over 24 months, a pace of slightly more than 2% per year.

As the Fed contemplates the next rate hike cycle, it is expected that the pace of hikes will be more gradual this time. In recent speeches, Fed President Yellen has indicated that a pace of 1.00% per year is more likely, slower than previous cycles. The rationale for slower rate hikes is that the economy is still recovering to full strength and the Fed is hesitant to tighten too aggressively. With inflation pressures still mild, we believe the Fed would rather wait to raise rates further rather than risk dampening economic activity and open the possibility of reversing course and lowering rates. If Fed rate hikes are more gradual, our expectation is that bond price declines will be more gradual as well.

Factor 3: Where Rates End Up

Lastly, we consider where the Fed funds rate will end. The natural resting place for the Fed funds rate is called the "neutral rate." This is the rate at which the fed balances full employment with its target for inflation. For a long time, the Fed estimated that the neutral Fed funds rate was around 4%. Expectations for this cycle are that it will be lower, closer to 2.5%-3.0%. The FOMC's median projection for the Fed funds rate at the end of 2017 is 3.125% as of March 2015, down from 3.750% in the survey taken six months prior. It is also worth noting that the futures market indicates that the Fed funds rate will be below 2% at the end of 2017. The lower neutral Fed funds rate expectations are driven by a slower global growth and inflation outlook, which is the result of demographic changes and higher rates of saving globally. The expectation for a lower ending point during the upcoming rate hike cycle limits our downside expectations for fixed income portfolios.

How Will This Impact Fixed Income Portfolios

Although the outlook for fixed income is challenging, our base case does not include a dramatic sell-off over the next few years. However, due to low current interest rates, it is possible that we will see a period of

negative returns for fixed income at some point. Although rising rates can cause pain for fixed income investors over the short-term, the benefit is that they are able to reinvest at higher rates and generate better returns over the long-term.

While our base case scenario is that rates will increase at a moderate pace over the next few years, we consider other scenarios as we build portfolios. If global growth slows more than expected, the Fed could end the rate hiking cycle or possibly lower rates depending on the severity of the slowdown. This scenario would likely result in a bond market rally. On the other hand, accelerating global growth and higher inflation could lead the Fed to raise rates faster than expected, driving yields sharply higher and bond prices lower.

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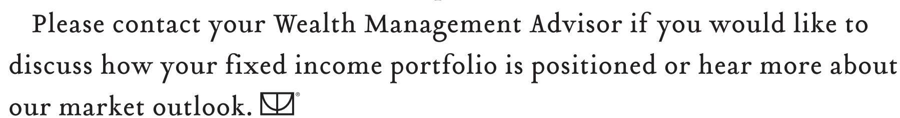
How We Are Positioned

We have designed our fixed income portfolios around this base case, but we understand that many asset managers and economists have incorrectly projected higher interest rates over the past few years. We hold less in core US fixed income than we might if we viewed potential returns more favorably. We have diversified our exposure to interest rate risk in the US by adding exposure to global sovereign bonds and currencies and select exposure to higher-yielding credit strategies with less interest rate risk. In addition, our target duration is slightly shorter than applicable benchmarks. Our belief is that this positioning will help to protect our clients' assets if rates do rise and will generate risk-adjusted returns that exceed those available in a core US portfolio.

Please contact your Wealth Management Advisor if you would like to discuss how your fixed income portfolio is positioned or hear more about our market outlook.



Stock Market Pulse

Index	4/30/2015	Total Return Since 12/31/2014
S&P 1500	482.69	2.06%
DJIA	17,840.52	0.91%
NASDAQ	4,941.43	4.68%
S&P 500	2,085.51	1.92%
S&P 400	1,500.19	3.74%
S&P 600	702.97	1.55%
NYSE Composite	11,049.74	1.94%
Dow Jones Utilities	586.63	-4.24%
Barclays Aggregate Bond	110.86	1.19%

P/E Multiples	4/30/2015
S&P 1500	17.7x
DJIA	14.5x
NASDAQ	21.3x
S&P 500	17.4x
S&P 400	20.0x
S&P 600	21.1x

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.01%
T Bond 30 Yr	2.75%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	482.69	17.7x	1.97%
S&P 500	2,085.51	17.4x	2.03%
DJIA	17,840.52	14.5x	2.25%
Dow Jones Utilities	586.63	NA	3.43%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.78%

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