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The More, the Merrier or Too Late to The Party?

February Market Review From Your Portfolio Management Team—March 6, 2015

They say it's fashionable to be late to the party. While timing one's entrance might be an acquired skill in social circles, making a graceful exit can be just as important. When we think of a good party, we think of a large showing of guests. The *real* party doesn't get started until all of the invited guests have arrived. The challenge for a host or hostess is to keep all of the guests entertained so that the party doesn't fizzle out.

Last year, the only one who showed up to the party was the large cap U.S. equity market, and it had a grand old time, dancing to its own tune while it seemed the rest of the world decided not to join in the bash. In 2014, with dividends, the S&P 500 Index was up almost 14% and the Dow was up 10%. But EAFE, the MSCI index of foreign stocks, was actually down 5%. MSCI Europe was down 6%, and MSCI Emerging Markets was down 2%. As an investor, you were stuck in the slow dance if you partnered with anyone other than U.S. large company stocks.

This year, so far, has been different. As we illustrate in the table below, world markets outside of the U.S. have begun to rally back, showing strong positive returns. More notably, not only have world markets now shown up to the party, but they're stealing the limelight from U.S. equities, outpacing U.S. indices. We have added the Barclays bond for comparison purposes since we do hold fixed income positions within some strategies. There has been a recent shift this year where more *guests* from around the world are coming to the party. The question is, will they continue to join?

Index	*YTD 2015*	*2014*
S&P 500 Index	2.6%	13.7%
Dow Jones Industrial Average	2.2%	10.0%
EAFE	**6.5%**	**-4.9%**
MSCI Europe	**6.3%**	**-6.2%**
MSCI Emerging Markets	**3.7%**	**-2.2%**
Barclays Bond	1.1%	6.0%

Source: Eaton Vance
Note: EAFE represents the MSCI index of foreign stocks
Barclays Bond represents the Barclays Capital Aggregate Bond Index
YTD covers the period from 12/31/14 – 2/28/15.

The host of this party has been the Federal Reserve, joined by the European Central Bank in January when the ECB announced its own program of quantitative easing, expected to last until at least 2016. The ECB "QE" has been compared to our Fed's QE which successfully raised asset prices within the U.S. as we enter the 7th year of recovery. But some observe that the politics of the European Union are much more complicated than those of the U.S., cautioning the temptation to extrapolate the performance of U.S. equities to other world markets. Nevertheless, the performance of foreign stocks so far this year has been noteworthy.

The question one might ask is whether this will be the year the U.S. equity market leaves the party. If so, will this prompt the foreign market guests to stop coming and exit as well? The U.S. has been a beacon to the world. In other words, U.S. equities have been carrying the world, and if they lose their luster, the fear is the party ends.

Alternatively, this could be the year that we see a shift, where world equities join the U.S. equities party. It will require nimble feet to follow the beat and rhythm of this party. FSA has already increased exposure to world markets in some strategies and will increase/add positions should this transition continue.

These last few weeks of winter have been particularly hard on many of our clients, and our hope for everyone is the arrival of warm springtime weather.

FSA Investment Team