



Dear Clients and Friends,

April 2015

Moving into the second quarter we pause and ask ourselves, as investment professionals, “what do we know, with reasonable certainty?” The investment strategy team at United Asset believes that commodity prices (including energy), interest rates and the international markets will not stay this low forever. It is not a matter of which direction prices and rates will go, but rather the timing.

We seek to take advantage of attractive buying opportunities in the energy space, an important component to a properly diversified portfolio. During the first quarter and most likely over the coming months, we will add master limited partnerships (MLPs) for value and income investors. MLPs offer attractive tax breaks high yields and are more closely correlated to equities than to fixed income. With restricted capacity on the rise, due to cut backs in energy production, we have been adding large integrated oil companies at attractive prices and current yields. For our more growth oriented investors, we are investing slowly into the hardhit oil services sector.

In Europe, the economic stimulus policies coming out of the ECB and a pledge to “do whatever is necessary” from Mario Draghi are similar techniques used by our Federal Reserve, which in part set up the last six-year US equity bull market. Weaker European foreign currencies, combined with a strengthening US economy are causing foreign exports to increase. For the first quarter of 2015, the markets of mature Europe have outperformed the US and this trend is likely to continue barring any drastic change in policy or geopolitical climate. The consensus has been to continue our dollar cost averaging (buying in a few smaller lots rather than one large block) into mature international markets.

Regarding interest rates, we believe the Federal Reserve is unlikely to raise rates in April or June with September a possibility. We base this forecast on our interpretation of the recent change in its language, which has emphasized both labor and inflation as being key ingredients to its decision. With unemployment under 6% and expected to fall further, combined with US business leaders responding to surveys that increases in real wages (not benefits) are likely over the coming months, we will stay on heightened alert for changes in trends towards rising inflation. Eventually interest rates will increase, but the Federal Reserve has consistently indicated the rate of change will be slow and predictable. This supports our theory that rates will stay below historic averages for a considerable time, and United Asset has positioned our fixed income portfolios accordingly.

The strong US dollar continues to cause headwinds for our multinational companies’ earnings. Last quarter saw the earnings of many mega cap companies missing the mark as they were caught under hedged in the US dollar. With a new earnings season upon us, we are cautious as the continued quick rate of change and acceleration of the US dollar’s strength may once again cause earnings misses for the large and mega cap multinational corporations.

Lastly, we need to remind our clients that the increase in volatility is actually normal, although it feels uncomfortable. The last three year’s volatility (rate of daily change in price) of the S&P 500 has been nearly half of the long-term average. We appreciate our client’s changing risk tolerances but remind you to invest to meet your financial goals, this takes out some of the noise from the market’s volatility.

We hope you are reading our blog at UnitedAsset.org or following us on Twitter @united_asset. We release a mini market commentary every business day. Also, we recently launched a “Need-to-Know” email blast for interested clients and friends. Please call your relationship manager to learn if this feature will be of value to you and your family.

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