Morningstar Market Commentary

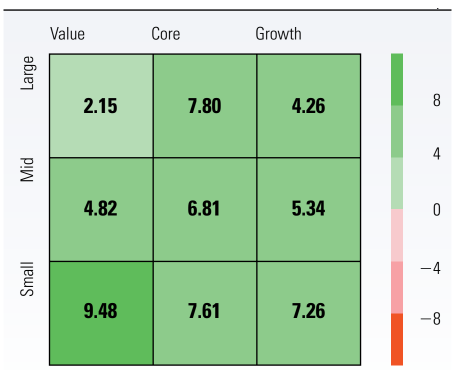
Q4 2014

Rodney Nelson Associate Equity Analyst
David Sekera, CFA Bond Strategist

indexes@morningstar.com
+1 312 384-3735

Despite cratering oil prices and international currency debacles, U.S. equities continued their march to all-time highs in the fourth quarter.

Q4 2014 Morningstar Market Barometer



Q4 2014 Morningstar Index Returns

Stocks	
US Market Index	5.14
Global Ex-US Index	–3.70
Developed Ex-US Index	–3.62
Emerging Markets Index	–4.00
Bonds	
Core Bond Index	1.89
Commodities	
Long-Only Commodity Index	–18.68

2014 proved to be another banner year for the U.S. equity market despite mixed economic data and questions about how the market will react to the end of the Federal Reserve's stimulus program. Add to the mix crashing oil prices and heightened volatility in the currency markets, and the resiliency of the U.S. stock market is all the more impressive. The U.S. economy continues to have its fits and starts, but a third-quarter GDP print of 3.5% and sustained strength in retail sales and industrial production kept the bears at bay for much of the fourth quarter, save perhaps the energy sector, which faced heavy selling pressure in the face of crude oil prices that were nearly halved in the quarter.

The Morningstar US Market Index enjoyed another solid quarter to close out the year, rising 5.14% to bring the index's full-year gains to 12.85%. The market took the termination of the Federal Reserve's quantitative easing program in stride, and despite sharp sell-offs in October and December, it recovered quickly off the lows each time to make several all-time highs in the period. Many will look back at 2014's stock market gains as a series of equity rotations. While energy names led the way early in 2014, it was yield-oriented sectors such as real estate and utilities that sparked the fourth-quarter rally as those same energy stocks slid. Both sector posted gains of roughly 13% in the quarter, bringing their full-year gains to more than 25%.

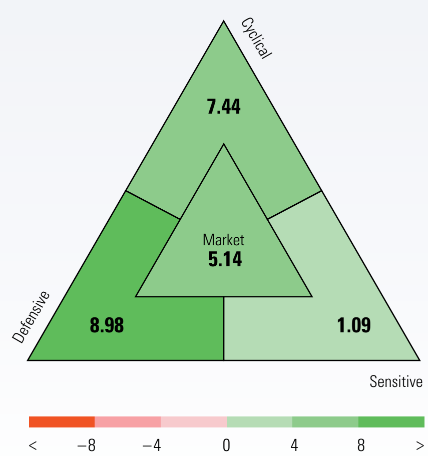
The international markets were marred by crashing currencies, while several economies with heavy energy exposure face tumultuous conditions heading into 2015. The Russian market in particular was hit hard, as the rouble endured a full-fledged crash in the fourth quarter while oil prices hit the skids. As a result, the Russian stock market slid more than 30% in the fourth quarter. Other economies dependent on energy, such as Venezuela, also face unrest as global oil and gas producers have refused to cut production in the face of falling prices.

With fears of an Ebola outbreak subsiding in the fourth quarter, stock market prognosticators will now speculate on whether international currency crises will mirror those of the late 1990s, if the crash in oil prices will eventually lead to a meaningful decline in the U.S. market, or perhaps the accelerations in tech valuations are shades of the 2000 tech bubble.

Sector Indexes

The slide in energy prices in the fourth quarter led to more volatility in 2014's final months, but the end result was more of the same: higher equity prices. Morningstar's super sectors each posted gains in the fourth quarter, with the Defensive Super Sector leading the way for a second straight quarter with an advance of nearly 9%, bringing its full-year gain to nearly 23%, best among the super sectors. The Cyclical Super Sector delivered gains of roughly 7.5% in the fourth quarter and 11% overall, while the Sensitive Super Sector lagged in 2014, gaining just 1% in the fourth quarter and 8.7% overall.

Q4 2014 Morningstar Sector Delta and Return %



Sector	Quarter	1-Year	3-Year
Cyclical	**7.44**	**11.27**	**23.51**
Basic Materials	–2.34	4.64	13.63
Consumer Cyclical	9.01	8.57	24.55
Financial Services	7.37	11.64	27.19
Real Estate	12.94	28.68	15.80
Sensitive	**1.09**	**8.73**	**17.23**
Communication Svs	–0.45	5.43	20.82
Energy	–12.51	–8.83	6.59
Industrials	7.02	9.28	21.40
Technology	4.53	19.00	20.08
Defensive	**8.96**	**22.66**	**22.49**
Consumer Defensive	8.84	16.79	18.05
Health Care	8.19	25.89	28.93
Utilities	13.19	27.29	14.18

Morningstar Super Sectors

	P/E	P/B	Yield %	Earnings Growth	Sales Growth
Cyclical Super Sector	18.24	2.01	1.89	9.39	0.47
Sensitive Super Sector	17.42	3.05	2.00	10.87	4.58
Defensive Super Sector	23.62	3.58	2.03	4.17	5.21

Defensive Super Sector 8.96%
The Defensive Super Sector notched a second straight quarter of leading gains as consumer defensive, health-care, and utilities stocks benefited from strong consumer sentiment, a bevy of groundbreaking biotech breakthroughs, and a rotation into yield-oriented names. Among the super sector's top 10 contributors in the quarter were three consumer defensive companies and seven health-care stocks, led by Procter & Gamble (up 9.6% in the quarter), CVS Health (up 21.4%), and Wal-Mart Stores (up 12.9%).

Three pharmaceutical stocks posted gains upward of 50% in the quarter, including Agios Pharmaceuticals, whose stock soared more than 80% in the fourth quarter as excitement abounds for the company's novel cancer metabolism treatments. Among its high-flying peers were Isis Pharmaceuticals (up 59%) and Cubist Pharmaceuticals (up 51.8%). Not all pharmaceutical stocks excelled in the quarter, however. Biotech heavyweight Gilead Sciences suffered an 11% decline in the quarter as questions arose regarding the pricing of its hepatitis C treatments Harvoni and Sovaldi, with competitive alternatives from firms such as AbbVie and Achillion Pharmaceuticals potentially triggering a price war.

Cyclical Super Sector 7.44%
The Cyclical Super Sector enjoyed a strong run to close the year after remaining essentially flat during the third quarter. Financial services and consumer cyclical stocks buoyed the super sector in the fourth quarter, led by top-contributing blue-chip firms such as Visa, MasterCard, and Berkshire Hathaway (up 23%, 16.7%, and 8.7%, respectively), while home-improvement retail names were also in vogue during the quarter, as Lowe's and Home Depot enjoyed stock rallies of 30.6% and 15%, respectively.

Office supply retailers enjoyed stellar fourth quarters, as Office Depot and Staples staged impressive rallies totaling more than 50% each. However, the crash in oil and natural gas prices extended to a number of industries, including the worst performer of the quarter, US Silica Holdings. The basic materials firm fell 58.7% as the fracking and silica sand supplier was hit hard along with several of its peers.

Sensitive Super Sector 1.09%
The Sensitive Super Sector was the laggard for a second straight quarter after posting a slight decline in the third quarter. The sector's heavy exposure to energy stocks explains the lackluster performance, as top contributors Halliburton and Schlumberger posted losses of 38.7% and 15.6%, respectively, in the quarter. A number of technology stocks also struggled in the quarter, including IBM. Big Blue's stock fell nearly 15% as the firm continues to restructure, essentially taking an impairment charge on its semiconductor business as it was taken over by GlobalFoundries.

Style & Cap Indexes

Although the style indexes were all essentially flat in the third quarter, each posted solid gains to close out the year, with each index posting full-year gains of more than 9%. The Morningstar US Core index was the leader in the fourth quarter, rallying 7.59% to close the year out up 16.24%. The Morningstar US Growth Index delivered a gain of 4.66% in the quarter and 12.66% for the year, capping a second straight strong year for growth stocks. The Value Index was the relative laggard, gaining just 3.16% in the quarter and 9.75% for the balance of 2014. For the size indexes, small-cap stocks rebounded after an abysmal third quarter, leading the way with an 8.12% gain, followed by mid-cap and large-cap stocks at 5.7% and 4.7%, respectively.

Morningstar US Core 7.59%

The US Core Index received strong performances seemingly across the board, save energy stocks, which constituted the entirety of the index's bottom performer list. Five health-care names landed in the top contributor list, including pharmaceutical companies Amgen and AbbVie (each up 14% in the quarter), as well as UnitedHealth and Medtronic (each up 17.6% in the quarter). Financial services behemoth Berkshire Hathaway was the index's top contributor, rising 8.7% in 2014's final stanza. However, few industries benefit as directly from cratering oil prices as does the airline industry. American Airlines Group is no exception; the index's top performer surged more than 50% in the fourth quarter as West Texas Intermediate crude oil prices careened as low as $52 per barrel by the end of the year.

Conversely, a number of energy stocks posted heavy losses in the fourth quarter. Companies such as Key Energy (down 65%), SandRidge Energy (down 58%), Whiting Petroleum (down 57%), and Bill Barrett (down 48%) all led the way on the downside for the index.

Trailing Returns

1-Year

	Value	Core	Growth
Large	9.24	17.12	14.38
Mid	11.45	15.94	9.77
Small	10.03	8.21	2.46

3-Year

	Value	Core	Growth
Large	16.71	22.81	21.36
Mid	23.05	22.01	19.45
Small	20.89	19.84	18.50

5-Year

	Value	Core	Growth
Large	13.26	16.68	15.43
Mid	16.96	18.61	16.28
Small	16.91	15.94	16.67

< −8 −4 0 4 8 >

Morningstar Style & Cap Indexes

	P/E	P/B	Yield %	Earnings Growth	Sales Growth
Morningstar Value	14.00	1.74	3.01	4.18	–0.98
Morningstar Core	21.09	2.92	1.91	–0.53	6.08
Morningstar Growth	25.03	4.71	1.08	20.31	11.13
Morningstar Large Cap	18.46	2.79	2.10	8.16	2.73
Morningstar Mid Cap	20.65	2.54	1.65	14.73	5.39
Morningstar Small Cap	20.74	2.24	1.46	–18.59	1.96

Morningstar US Growth 4.66%

The US Growth Index staged a solid rally in the fourth quarter following its modest advance in the third quarter, despite having a pair of slumping oil heavyweights among its top contributors in Schlumberger and Halliburton. The 10% rally in shares of Apple helped to offset those declines, as the holiday season and anticipation over the 2015 launch of the Apple Watch aided the stock in 2014's final months. Digital marketing agency Sapient also enjoyed a strong close to 2014 as it reached an agreement in November to be bought out by advertising giant Publicis. News of the deal accounted for much of the stock's 77% runup in the fourth quarter.

The index had its share of energy under-performers, including Oasis Petroleum, Comstock Resources, and Sanchez Energy, each of which fell more than 60% in the quarter. However, no stock's slide can compare with that of GT Advanced Technologies. After rumors all year about GT's sapphire displays being included in Apple's iPhone 6 and 6 Plus, the devices turned out to be without this technology, sending the stock cratering. Weeks later, the firm would declare bankruptcy, leading the stock to cede 97% of its value by year's end.

Morningstar US Value 3.82%

The US Value Index posted the smallest gains of the fourth quarter and 2014 overall, primarily because of poor performance from several of its top contributors. Unsurprisingly, two of these contributors were energy names in Apache and Chevron, falling 33% and 5%, respectively. However, IBM's latest quarterly results took the market by surprise, sending the stock 15% lower in the quarter. This decline was offset by a solid quarter for fellow tech heavyweight Cisco, which delivered a 10.5% gain to close out the year. The index benefited from its own airline stock, as top contributor Delta Air Lines rallied 36% as benefits from low oil prices take hold. Consumers stand to benefit from what is essentially a tax break thanks to lower gasoline prices, creating an added lift for retail stocks such as Wal-Mart, Office Depot, Rite Aid, and Staples, with the last three names each delivering gains of more than 50% in the fourth quarter.

Morningstar Small Cap 8.12%

Although the Small Cap Index was obliterated (relatively speaking) in the third quarter, it rebounded well in the fourth quarter, despite having some of the worst-performing names in the entire market in its top contributor list. These include GT Advanced Technologies (down 97%), US Silica Holdings (down 59%), and Rosetta Resources (down 50%). Isis Pharmaceuticals went a long way to offset these declines, as the biotech company focusing on Crohn's disease saw its stock rally nearly 60% in the fourth quarter.

Semiconductor stocks also enjoyed a strong run in the fourth quarter, with several landing in the index's top contributor list. Triquint Semiconductor and RF Micro Devices were among the index's top contributors, posting gains of roughly 44% each. Conversely, shares of Altisource Portfolio, the spin-off of embattled lender Ocwen Financial, fell 66% in the fourth quarter as they continued to crater from their highs.

Morningstar Mid Cap 5.68%

Mid-cap stocks benefited largely from strong performance in the consumer sector, while many of the themes surrounding energy and technology stocks in other sectors played out here as well. The Mid Cap Index's top contributor was indeed an airline, as United Continental Holdings' stock surged 43% as the market priced in cheaper jet fuel. A pair of automotive retailers also benefited from falling fuel prices, as shares of CarMax and O'Reilly Automotive rallied 43% and 28%, respectively. Among the mid-cap technology leaders was Electronic Arts, whose shares rose 32% during a holiday season that featured strong sales of games such as FIFA 15, Madden 15, and new release Dragon Age: Inquisition. Semiconductor firm Avago Technologies also enjoyed a rally of 16% following another strong set of quarterly results.

A familiar cast of characters rounded out the worst performers, including energy names such as Oasis Petroleum and Whiting Petroleum. The bottom five performers were all energy stocks that each fell more than 50%.

Morningstar Large Cap 4.73%

Although the Large Cap Index was the relative laggard in the fourth quarter, the index was 2014's best performer among the size indexes, gaining just over 13.5% for the year. The index was buoyed by a pair of airlines (American Airlines and Delta), two tech giants (Apple and Oracle), and major financial services firms (Visa and Berkshire Hathaway). Unsurprisingly, most of the lag in the index's performance can be attributed to the energy sector, with names like Continental Resources (down 42%) and Apache (down 33%) suffering heavy losses.

The struggles of social media firm Twitter have led to impatience for its investors, as shares of the microblogging site fell just over 30% after surging immediately following its initial public offering. Rumors have begun to swirl that CEO Dick Costolo may be forced out as shares have been cut roughly in half from their post-IPO highs in January 2014.

Fund Categories and Benchmarks

The Active vs. Passive chart shows the percentage of actively managed open-end mutual funds that were able to outperform their corresponding Morningstar Indexes benchmark. In the last quarter of 2014, Large Core managers continued to have the toughest time out-performing their benchmark, with less than 2% of managers beating the Index's 7.80% return. Just slightly higher were Small Value and Mid Core managers, with only 18% and 20% of managers beating their benchmarks, respectively. More than half of Large Growth, Mid Growth, and Mid Value managers beat each of their individual Index benchmarks, while nearly 63% of Small Growth managers beat the Index's 7.26% return. The Large Value Index had the lowest return this quarter, at 2.15%, allowing almost 75% of managers to outperform their benchmark.

Active vs. Passive

	Value	Core	Growth
Large	74.32 / 2.15	1.76 / 7.80	56.36 / 4.26
Mid	54.05 / 4.82	20.19 / 6.81	50.46 / 5.34
Small	18.64 / 9.48	48.10 / 7.61	62.84 / 7.26

◸ Actively managed mutual funds outperforming their respective benchmark (%)[1]

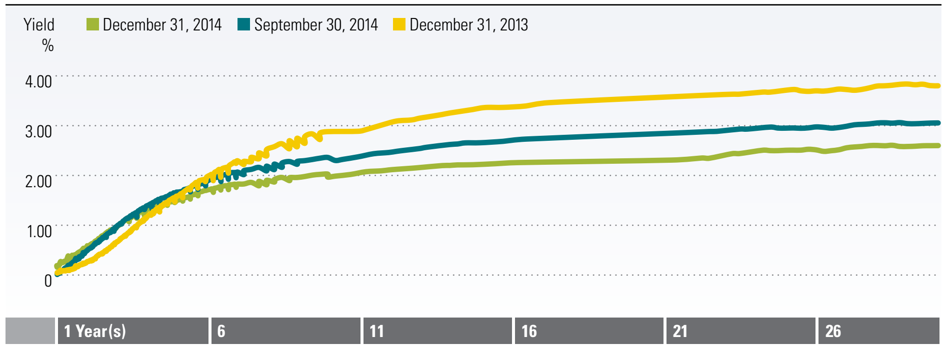
◢ Index Returns (%), Q3

[1] Includes the oldest share class for all U.S. diversified mutual funds with at least a one-year history. As of December 31, 2014 there were 2,145 eligible funds. Morningstar classifies funds into style categories based on the average style score (using the same 10-factor methodology as underlying benchmarks) of all available portfolio holdings over a three-year period.

Fixed-Income Indexes

The yield curve for U.S. Treasury bonds flattened significantly in 2014 and declining long-term interest rates led to strong gains across the fixed-income market; however, we expect this tailwind to subside in 2015. While we don't expect interest rates to spike higher in the near term, the combination of continued economic growth in the United States and end of the Fed quantitative easing program will allow interest rates to normalize and rise toward historical averages. In the near term, additional monetary easing from the European Central Bank and continued easy money policies in Japan are likely to support global bond prices.

Treasury Yield Curve



Morningstar Bond Indexes

		Returns		Statistics			
		QTR	YTD	Market Value ($Mil)	Credit Quality	Yield to Maturity	Average Duration
Broad Market	Core Bond	1.89	6.07	15139	AA	2.10	5.07
Sector	US Government	1.93	5.08	6425	AAA	1.41	5.40
	Corporate	1.53	7.20	3795	A–	3.12	6.69
	Mortgage	1.89	6.36	4799	AAA	2.25	3.43
Maturity	Short–Term Core	0.27	1.04	4428	AA	1.03	2.17
	Intermediate Core	1.66	5.56	7506	AA+	2.20	3.93
	Long–Term Core	4.64	15.10	3159	AA–	3.35	11.83
Inflation Prot. Secs.	TIPS	0.17	3.95	853	AAA	0.40	7.75
Global Sovereign	Global Govt USD	–1.37	–0.22	21076	AA	1.01	7.20
	Global Govt ex–US USD	–2.72	–2.28	14539	AA–	0.85	7.97
	Eurozone EUR	2.77	13.26	7017	A+	0.87	6.94
	Swiss CHF	3.31	9.17	99	AAA	0.21	9.32
	UK GBP	6.61	14.49	1921	AA+	1.69	10.37
	Australasian USD	–1.13	1.94	318	AAA	2.66	5.56
	Canadian CAD	2.52	7.55	365	AAA	1.50	6.79
	Japanese JPY	2.36	4.66	4816	A+	0.33	8.74
Europe	Eurobond Corp EUR	1.46	8.35	1390	A-	0.92	4.82
	European Bank Capital EUR	1.15	6.98	493	BBB+	1.37	4.02
	European Covered EUR	1.17	7.86	720	AA	0.46	4.34
	UK Eurobond Corp GBP	4.81	13.25	252	BBB+	3.12	8.99
	UK Bank Capital GBP	3.17	9.30	56	BBB+	3.58	6.65
Emerging Market	Composite USD	–1.45	5.06	117407	BBB	5.50	6.05
	Sovereign USD	–0.26	7.69	44615	BBB–	5.44	7.25
	Corporate USD	–2.29	3.47	72302	BBB	5.72	5.31

Data as of 6-30-2014

Declining Interest Rates the Primary Driver of Fixed-Income Returns in 2014

In 2014, fixed income returns were predominately driven by the flattening yield curve as short-term interest rates rose and long-term interest rates declined. Investors, pricing in a higher probability that the Fed will begin to increase the federal funds rate by mid-2015, prompted the increase in short-term rates. On the longer end of the curve, mixed economic indicators in the United States, weak economic conditions in Europe, and slowing growth in China prompted investors to seek the safety of U.S. Treasuries, driving long-term interest rates lower. Over the course of the year, the yield on the two-year Treasury rose 28 basis points to 0.66%; whereas, the yield of the 10-year Treasury declined 86 bps to 2.17% and the 30-year bond dropped 121 bps to 2.75%.

Overall, the Morningstar Core Bond Index rose 1.89% in the fourth quarter and 6.07% in 2014. The long end of the curve predominately drove the return. In the fourth quarter, our Long-Term Core Bond Index rose 4.64% and for 2014 had generated a 15.10% return. These increases substantially outpaced the gains in the Short-Term and Intermediate Term Core indexes. Morningstar's Short-Term Core Bond Index rose just 0.27% in the fourth quarter and only 1.04% in 2014. The Intermediate Core Bond Index rose 1.66% in the fourth quarter and 5.56% in 2014.

Due to its longer duration, in 2014 the Morningstar Corporate Index outperformed both the Core Index as well as our US Treasury Index, even though credit spreads widened. Our Corporate Bond Index rose 1.53% in the fourth quarter and returned 7.20% for 2014; whereas, Morningstar's US Treasury Index returned 1.93% for the fourth quarter, but only 5.08% in 2014. Rapidly declining oil prices drove corporate credit spreads significantly wider and pushed the average credit spread of our Corporate Bond Index 20 bps wider in the fourth quarter to end the year at +140, its highest level of the year. With its intermediate duration, the Morningstar Mortgage Index also performed well as it rose 1.89% in the fourth quarter and 6.36% for the year. Between the strong dollar, continued economic growth in the United States, and the end of quantitative easing, inflation expectations continued to drop last quarter. The Morningstar TIPS Index took the brunt of this deterioration and only rose 0.17% last quarter and only gained 3.95% for the year.

While the Federal Reserve wound down its asset purchase program, the ECB and Bank of Japan continued their easy money policies. This led to the dollar strengthening, which in turn led to losses in those indexes denominated in U.S. dollars but invested in foreign-denominated securities. For example, the Morningstar Global Government Bond Index declined (1.37%) and excluding U.S. government bonds, the Morningstar Global Ex-US Government Bond Index fell (2.72%). The Morningstar Emerging Market Composite Bond Index dropped (1.45%) based on the combined (0.26%) decline in the Emerging Market Sovereign Bond Index and (2.29%) decline in the Emerging Market Corporate Bond Index.

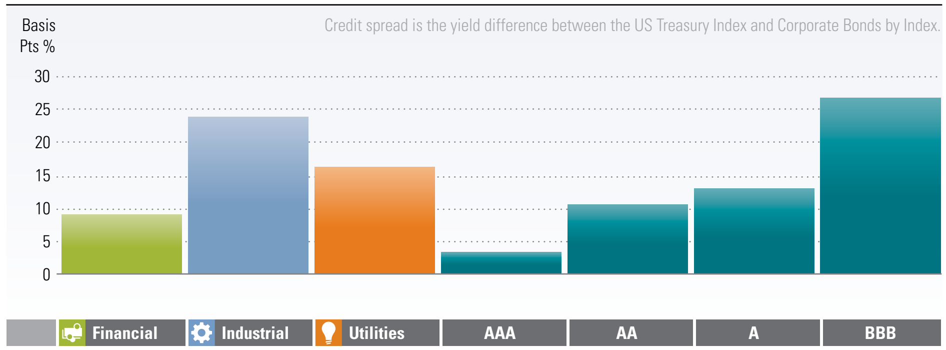
Whereas, last quarter we thought credit spreads were generally fairly valued (albeit at the tight end of the range that we consider fairly valued) we now see credit spreads at the wide end of the range that we think is fair value. We expect high-yield bonds to provide a better return than investment-grade in 2015. The issuers most affected by falling oil prices have taken the brunt of losses over the past month and the additional carry in the index will help to offset any further widening if oil prices fall further. In addition, we continue to forecast moderate economic growth in the United States, which should hold down default rates. We don't foresee interest rates spiking higher, but we do expect interest rates will drift upward through the year. High-yield bonds have a lower duration and will be less affected by rising rates.

ECB Continues to Sit on its Hands, but Promises to Act Early This Year

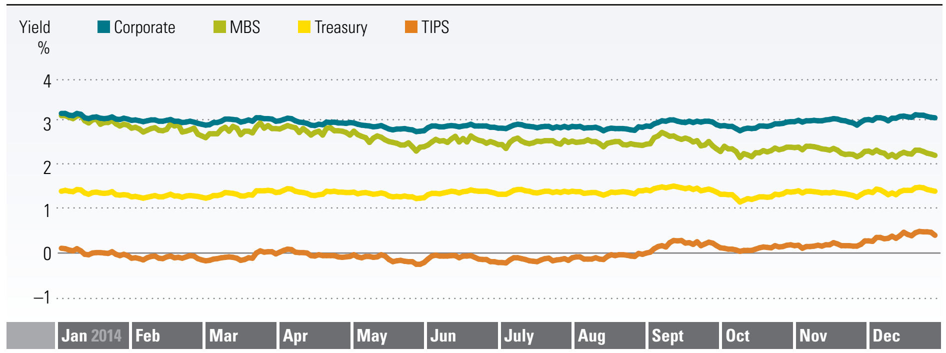
European corporate bonds performed strongly in 2014 in local currency terms. The Morningstar Corporate Eurobond Index rose 1.46% in the fourth quarter and 8.35% for the year. A significant decrease in underlying long-term interest rates drove much of this gain. For example, the yield on the 10-year German bond has declined 139 bps this year to 0.54%. Tightening credit spreads also helped generate excess returns last year as the average spread of our Eurobond Index tightened 19 bps to +84.

At the December meeting, the ECB decided to hold its monetary policy steady; however, it did reduce its forecasts once again for GDP growth in 2015 and 2016, prompting the ECB to make a change in its statement that it "intends" to increase its balance sheet toward the size it was in the beginning of 2012, some EUR 1 trillion higher. Previously, the ECB only "expected" that it would see an increase. Investors have taken this change to mean that sovereign bond purchases are on the near-term horizon. Spanish and Italian 10-year bonds rose higher and their respective interest rates declined to 1.61% and 1.89%, respectively, their lowest historical yields. If the ECB does not come through with a program to expand its asset purchase program into sovereign bonds soon, we would expect to see these bonds widen dramatically.

Credit Spread Change by Sector and Quality



US Bond Indexes: Average Yields



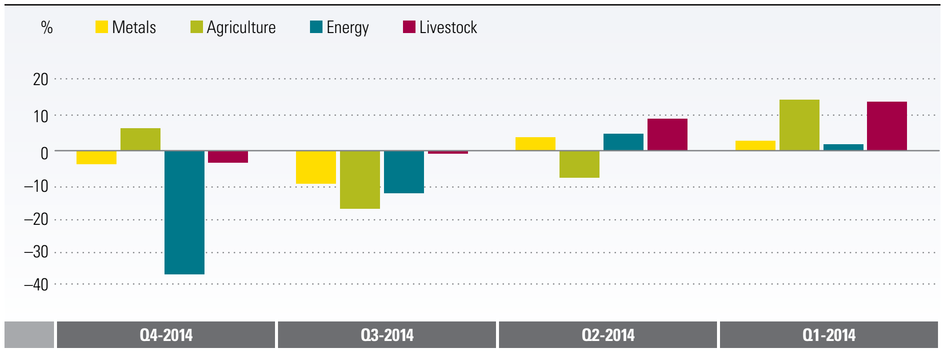
Commodities Indexes

Commodities rounded out a disappointing year with an abysmal fourth quarter, led lower by a full-fledged crash in crude oil and natural gas prices. Three of the four Morningstar commodity indexes moved lower in the fourth quarter, while all four finished 2014 in the red. The Morningstar Energy Index suffered the greatest decline, falling 38.14% to erase the entirety of its 2014 gains and finish the year down 13.1%. The Morningstar Metals and Livestock indexes fell 4.17% and 3.7%, respectively, closing the year down 10% and 1%, respectively. Although the Morningstar Agriculture Index rose 6.9% in the quarter, it finished the year off 18%.

Gold and silver experienced significant volatility in the fourth quarter, and while gold ended the quarter essentially flat near $1,200 per ounce, silver fell more than 7% to close the year near $15.75 per ounce. Copper held steady near $3 per pound for much of the quarter, but a sell-off in late November and December sent the price below $3, closing 2014 near $2.90 per pound.

However, it was crude oil that dominated the headlines for much of the quarter, coming to a head during the holiday season, as WTI crashed from roughly $75 per barrel to below $55 between Thanksgiving and Christmas. All told, WTI fell more than 40% in the fourth quarter, causing a broad-based sell-off in energy stocks while a number of fuel-dependent firms such as airlines and retailers enjoyed solid rallies. WTI crude closed 2014 at its lowest levels since 2009 in the wake of the financial crisis.

Quarterly Commodity Sector Returns



Morningstar Commodity Index Returns %

	Quarter	1–Year	3–Year	5–Year	10–Year	YTD
Long-Only	–18.68	–24.39	–8.96	–2.46	1.56	–24.39
Long/Flat	–0.47	–5.91	–4.21	0.30	4.51	–5.91
Long/Short	–2.27	–5.43	–4.11	–0.05	3.42	–5.43
Short/Flat	–1.97	0.36	–0.07	–0.46	0.25	0.36
Short-Only	21.96	28.83	6.39	–0.06	–1.86	28.83
Agriculture	6.86	–6.95	–1.26	2.99	4.79	–6.95
Energy	–38.14	–42.39	–15.56	–9.34	–7.60	–42.39
Livestock	–3.70	20.47	4.25	5.63	–0.50	20.47
Metals	–4.17	–7.82	–10.57	–0.06	11.24	–7.82

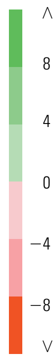
Conclusion

March 2015 will mark the six-year anniversary of the U.S. equity bull market, but we enter the year with a number of question marks. The Russian and Venezuelan economies are in peril amid cratering oil prices, and the U.S. dollar continues to strengthen versus virtually every significant international currency pair, creating a significant imbalance in the global economy. While the equity market has more or less shrugged off the crash in oil prices, the positive impacts of cheap crude (lower gasoline and jet fuel prices, heightened retail spending) can only offset the longer-term economic impacts (energy sector layoffs, debt defaults) for so long. It also raises the question of what sort of geopolitical tensions we could see in Russia and South America. While the Russians deal with a weakening rouble, stability in Venezuela is more fleeting than ever, and the longer those economies remain strained, the greater the likelihood that we could witness political unrest or military action in those regions. Further, the Middle East remains a situation that requires continual monitoring, particularly as world powers work to cripple the efforts of ISIS and similar terrorist groups from the region.

The other major theme to watch in 2015 will be the impact of various quantitative easing programs around the world. While Japan presses on with its program, the European Central Bank continues to ponder an easing program of its own, but the returns of such programs have come under further scrutiny. Many have pointed to the crash of crude oil as a signal that QE creates asset price bubbles, and further easing in other markets will only do the same. Still, the U.S. economy continues to make modest progress, and U.S. equity markets have been proving market bears wrong for the better part of a decade.

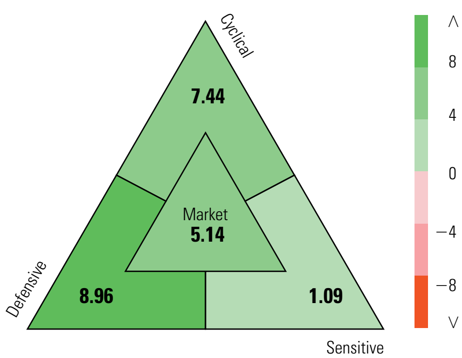
Q4 2014 Style Indexes

	US Market	Value	Core	Growth
	5.14	3.16	7.59	4.66
Large	4.73	2.15	7.80	4.26
Mid	5.68	4.82	6.81	5.34
Small	8.12	9.48	7.61	7.26



	Total Returns %								
	3–Month	1–Year	3–Year	5–Year	10–Year	Price/ Earnings	Price/ Book	Yield %	5–Yr Earn Growth
Morningstar US Market	**5.14**	**12.85**	**20.44**	**15.69**	**8.15**	**18.98**	**2.69**	**1.97**	**10.02**
Large Cap	4.73	13.56	20.20	15.11	7.63	18.46	2.79	2.10	9.72
Mid Cap	5.68	12.31	21.47	17.30	9.56	20.65	2.54	1.65	10.81
Small Cap	8.12	6.92	19.76	16.52	8.81	20.74	2.24	1.46	12.08
US Value	3.16	9.75	18.28	14.27	6.83	14.00	1.74	3.01	7.32
US Core	7.59	16.24	22.43	17.07	9.16	21.09	2.92	1.91	10.08
US Growth	4.66	12.66	20.77	15.76	8.24	25.03	4.71	1.08	15.05
Large Value	2.15	9.24	16.71	13.26	5.92	13.50	1.80	3.15	7.14
Large Core	7.80	17.12	22.81	16.68	8.91	20.80	3.01	1.99	9.62
Large Growth	4.26	14.38	21.36	15.43	7.76	24.09	4.86	1.28	14.76
Mid Value	4.82	11.45	23.05	16.96	9.09	15.70	1.64	2.66	7.93
Mid Core	6.81	15.94	22.01	18.61	9.91	22.08	2.85	1.84	11.29
Mid Growth	5.34	9.77	19.45	16.28	9.49	27.55	4.45	0.47	15.32
Small Value	9.48	10.03	20.89	16.91	9.27	15.44	1.53	2.57	8.25
Small Core	7.61	8.21	19.84	15.94	8.58	21.61	2.32	1.21	12.89
Small Growth	7.26	2.46	18.50	16.67	8.36	32.01	3.93	0.52	19.23

Q4 2014 Sector Indexes



	Total Returns %								
Index	3–Month	1–Year	3–Year	5–Year	10–Year	Price/ Earnings	Price/ Book	Yield %	5–Yr Earn Growth
Cyclical	**7.44**	**11.27**	**23.51**	**15.69**	**3.30**	**18.24**	**2.01**	**1.89**	**10.66**
Basic Materials	–2.34	4.64	13.63	9.49	6.89	18.59	2.90	2.25	9.66
Consumer Cyclical	9.01	8.57	24.55	21.28	8.84	21.00	4.12	1.37	13.18
Financial Services	7.37	11.64	27.19	13.94	0.92	15.17	1.34	1.68	9.72
Real Estate	12.94	28.68	15.80	16.17	7.47	33.32	2.33	4.07	6.96
Sensitive	**1.09**	**8.73**	**17.23**	**13.85**	**8.17**	**17.42**	**3.05**	**2.00**	**10.12**
Communication Svs	–0.45	5.43	20.82	16.93	9.18	16.27	3.06	2.62	8.39
Energy	–12.51	–8.83	6.59	9.43	11.25	12.75	1.74	2.65	8.12
Industrials	7.02	9.28	21.40	17.14	8.46	19.15	3.39	1.65	11.20
Technology	4.53	19.00	20.08	14.36	9.42	20.12	4.00	1.71	11.41
Defensive	**8.96**	**22.66**	**22.49**	**17.28**	**9.33**	**23.62**	**3.58**	**2.03**	**8.58**
Consumer Defensive	8.84	16.79	18.05	16.38	10.71	23.17	4.22	2.61	8.32
Health Care	8.19	25.89	28.93	20.31	11.28	25.46	4.14	1.30	9.86
Utilities	13.19	27.29	14.18	13.60	9.55	19.08	1.80	3.40	5.27

Bond Indexes

	3–Month	1–Year	3–Year	5–Year
Core	1.89	6.07	2.81	4.52
US Government	1.93	5.08	1.39	3.81
Corporate	1.53	7.20	5.29	6.31
Mortgage	1.89	6.36	2.93	4.20
Short-Term	0.27	1.04	1.12	1.81
Intermediate Term	1.66	5.56	2.88	4.37
Long-Term	4.64	15.10	5.10	8.54
Global Government ex. US	–2.72	–2.28	–1.32	0.99
Emerging Markets Composite	–1.45	5.06	5.31	6.98

Commodity Indexes

	3–Month	1–Year	3–Year	5–Year	10–Year	15–Year
Long-Only	–18.68	–24.39	–8.96	–2.46	1.56	6.33
Long/Flat	–0.47	–5.91	–4.21	0.30	4.51	7.90
Long/Short	–2.27	–5.43	–4.11	–0.05	3.42	7.27
Short/Flat	–1.97	0.36	–0.07	–0.46	0.25	1.12
Short-Only	21.96	28.83	6.39	–0.06	–1.86	–4.52
Agriculture	6.86	–6.95	–1.26	2.99	4.79	4.02
Energy	–38.14	–42.39	–15.56	–9.34	–7.60	3.10
Livestock	–3.70	20.47	4.25	5.63	–0.50	3.44
Metals	–4.17	–7.82	–10.57	–0.06	11.24	10.53

All data in this issue as of 12-31-2014