

# Quarterly Outlook

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**TANDEM**  
WEALTH ADVISORS

## Fourth Quarter 2014

Powered by an improving economy, equities hit new highs towards the end of the year, with the S&P 500 increasing by 4.4% in the quarter, for a gain of 11.4% in 2014. Despite the firming of the economy and expectations that the Federal Reserve Board will raise interest rates in 2015, the benchmark 10-year Treasury note continued to fall, closing at a 2014 low of 2.07% in mid-December.

The decline of oil prices had a major effect on the quarter, benefitting US consumers but sparking economic woes in oil-dependent economies. The growing oversupply of oil and the refusal of OPEC to curb production led to a drop of more than 50% in oil prices in 2014. After a six-year boom, US oil production, financed largely by the issuance of high-yield corporate debt, is being tested for resilience in the face of plummeting oil prices.

The Russian ruble tumbled lower in December, evidence of the country's profound difficulties as a result of economic sanctions. Standard & Poor's signaled that it was considering revising Russia's credit rating downward, below investment grade.

Inflation remained below the Fed's 2% target, as the downward trend in oil prices contributed to low consumer prices. Jobless rates continued to decline as consumer confidence rose and US gross domestic product (GDP) grew by 5% in the third quarter, the fastest rate of growth since 2003. This marked the second consecutive quarter of significant expansion, after advancing 4.6% in the previous quarter.

Republicans won big in US mid-term elections in November and their first action was to fund the government to avoid another default crisis.

### **Going Forward: Tandem's Outlook**

Tandem expects a blend of modest growth and modest inflation in 2015. Reasonable valuations, high corporate cash balances (which can increase dividends, stock buybacks, and merger and acquisition activity) and support from the Fed's low interest rate orientation are likely to continue to push US stocks higher. The mighty US consumer will continue to rebound as energy prices remain low and the dollar continues to strengthen.

Globally, European and South American markets are likely to remain weak as China, Japan, and India seek stability. Russia faces a high potential for recession this year. Tandem expects 2015 to be characterized by diverse global economic conditions.

It is important to develop an informed global perspective on markets and to understand the implications for portfolios. Lower yields on US bonds warn investors of the potential threat posed by global stagnation alongside recessions in other economies.

Overall, Tandem remains optimistic that the US will maintain its trend of strength and recovery. We remain aware of the potential risks and will continue to adjust our portfolios to balance risk and return throughout the new year.