Market Review and Outlook—June 8, 2015

US Economy is on Track, Right? The US economic recovery has aptly been called a 'plow-horse recovery,' with a slow and steady pace, and one which cannot easily be derailed. Monthly job growth has been positive for over five years, although it has rarely been over 200,000 jobs. Year-on-year economic growth has been positive also for over five years, but has been averaging less than 2¼%. With this backdrop (and near-zero interest rates for overnight borrowers), the US stock market has risen over 200%. No good deed goes unpunished; the solid recovery path for the US has led the US dollar to surge versus other currencies, and the US economy (and companies) are now facing a significant challenge—their goods and services are becoming less competitive, and this is providing a stiff headwind to US companies.

Foreign Stocks Gaining Respect While foreign economic growth for developed markets has been quite undependable, and while Greece is entering another danger zone, it appears that good times are just around the bend for foreign developed markets in general, and Europe in particular. They are benefiting from two notable factors—the stronger US dollar is making their goods and services more attractive, and they are finding sharply lower energy costs due to the dramatic fall in the price of oil (Europe is a significant net importer of oil, while the US is a fairly minor net importer of oil).

Investors are Taking Notice In 2014 the US stock market rose 13.7%, while year-to-date it is up only 3.2%. Before translating back to US dollars, Europe (ex UK) markets rose 7.4% last year but 15.8% year-to-date. For both periods US investors have received less than the local European returns, however this reduction will disappear (or reverse) when the US dollar stops rising (and if it begins to retrace its steps). US companies are earning 12% more than their 2007/8 peak earnings, while Europe companies haven't yet fully recovered; this leaves substantial upside potential in foreign stocks.

We are shifting slightly our US/foreign stock balance, from 57/43 to 56/44%, reflecting our view that there is greater potential upside for foreign stocks than US stocks. We are making no other notable stock changes.

In bonds we are maintaining our aggressive 65/35 quality/opportunity bond balance. A neutral balance is 80/20, and so the current stance is a strong statement that typical (quality) bonds are significant headwinds, of rising interest rates and falling prices, while quality bonds offer compelling values as the economy continues to recovery.

2015 is shaping up to be driven by lower oil prices, the higher US dollar, and potentially strengthening foreign stock prices. **Are you adapting to these factors?**

Category	3 Months	12 Months	3-Yr Avg	5-Yr Avg	10-Yr Avg
Fidelity Cash Reserves	+0.00%	+0.01%	+0.01%	+0.02%	+1.52%
Intermediate Term Bond	-0.12%	+2.31%	+2.76%	+4.22%	+4.36%
Intermediate Muni Bond	-0.63%	+2.02%	+2.31%	+3.78%	+3.66%
Large-Cap Stock	+0.52%	+9.84%	+18.66%	+15.04%	+7.50%
Mid-Cap Stock	+0.94%	+9.13%	+19.05%	+14.86%	+8.41%
Small-Cap Stock	+1.00%	+7.55%	+17.99%	+14.19%	+8.25%
Foreign Large-Cap Stock	+2.71%	+0.60%	+14.01%	+9.25%	+5.64%
Real Estate	-4.00%	+9.70%	+11.62%	+13.39%	+7.29%
Natural Resources	-0.61%	-15.57%	+3.14%	+3.64%	+5.57%
Technology	+2.38%	+17.61%	+20.27%	+15.61%	+9.78%
Moderate Allocation (60% stocks)	+0.46%	+5.27%	+11.66%	+10.16%	+6.25%

The data in this table comes from Morningstar and is as of May 31, 2015