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AAFMAA Wealth Management & Trust LLC

The Market Outlook

June 2015

The Fed and Rate Hikes

Timing is everything. Just as Federal Reserve officials indicated they would be ready to start raising interest rates as early as this month, the Labor Department stunned investors with a very weak March employment report showing payroll growth of only 126,000 jobs. This was the lowest reading since December 2013. To add to Fed worries, the Bureau of Labor Statistics then revised January and February numbers to reveal sharply lower growth, a combined 69,000 jobs lower than initially reported. The unemployment rate remained steady at 5.5%. We believe this reflects a reduction in the labor force. The labor participation rate hit a twenty year low of 62.7%. Still, the Fed remains data driven.

The weak March jobs report probably reduces - but does not eliminate – the likelihood of a June rate hike. To be sure, the Fed committed to reviewing more monthly employment reports before pulling the trigger on any interest rate changes.

Fed Chair Janet Yellen and the rest of the Board will wrestle with a mass of conflicting data when they decide what to do about

Stocks Treading Water

Equity markets continue to tread water so far this year as investors weigh equity valuations at the high end of historical ranges against the possibility of continued earnings growth.

We believe the market is fairly valued as certain valuation indicators (price/earnings, price/cash flow) have reached historically high levels while other indicators (earnings yield vs. bond yield) still show under-valuation. Until we see the Fed begin an aggressive tightening cycle – which will not be anytime soon – we will maintain mid-point equity allocations in client portfolios.

Fiduciary Duty

So what is fiduciary duty? It means to act in the best interest of the person whose assets the fiduciary is in charge. While that probably sounds like common sense, you might be surprised to know it is not a standard practice across the investment industry.

Recently, the media has revealed that clients may need to reconsider placing their entire trust in the hands of their brokers. Since there is no uniform way across the investment banking community to define fiduciary interest rates. If the Fed does not time the rate increase correctly, they risk pulling the economy back into recession. If they wait too long, they risk igniting inflationary forces that would be difficult to extinguish.

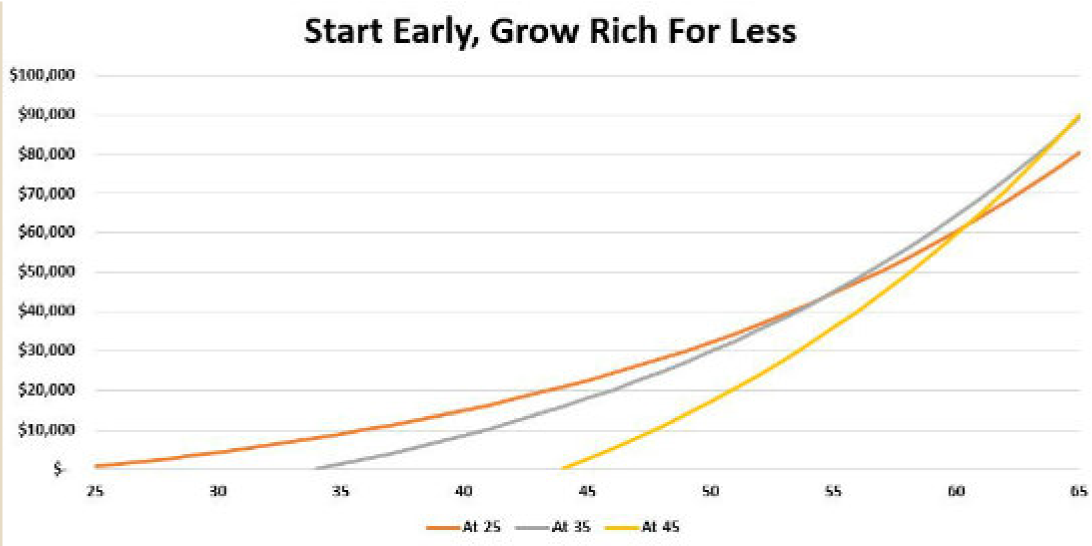
We believe that the Fed will eventually have to shift from their current accommodative rate policies to a more neutral stance fairly soon. Maintaining rates at near zero levels and the financial repression it inflicts on savers is not sustainable. Furthermore, the possibility of higher short term rates later this year keeps us defensive with the bond portion of client portfolios.

Internationally, it looks like the European Central Bank (ECB) has decided to pull from the Fed's playbook. Following in the Fed's footsteps, the ECB began buying € 60 billion of bonds in March. The majority of the purchases are sovereign bonds of various Eurozone countries, helping drive interest rates into negative territory. For example, a German bund investor must go out on the yield curve eight years to reach a break-even yield, meaning that for those eight years, that investor is paying the German government to hold their money for them. Negative rates have forced European investors into dollar-denominated assets, which in turn has pulled the value of the Euro vs. the dollar to near parity. We expect this trend to continue in the coming months, which could make this a great time to take that European excursion you have been planning!

responsibilities, managers are not always working for your greatest financial growth. Sometimes, instead, they work for their own commission.

Currently, brokers do not have a fiduciary level of duty to their clients and as a result, they are allowed to offer conflicting advice. For example, they can legally provide their clients with investment recommendations that may not be the best available option but that benefit the broker with higher fees or commissions. In other words, when a broker is considering a choice of investment funds for your IRA, they may use a fund that costs you more over one that costs less. This motivates brokers to work in their own best interest and put you at an obvious disadvantage. The DOL has recognized this systemic flaw and its potential impact on individual investors, and proposed rules to modernize the marketplace and make brokers overseeing IRAs more responsible to their clients.

As a fully chartered North Carolina trust company, AAFMAA Wealth Management & Trust holds the highest level of fiduciary duty to our members. We are responsible to you and to you alone. It is our duty to offer completely unbiased advice that is in <u>your</u> best interest first. With no stockholders to answer to and no dividends to pay shareholders, our loyalty is completely to <u>you</u>. This allows us to sit on your side of the table and to work together as we manage your assets and provide the most innovative, personalized, and lifestyle-appropriate financial services available.



The earlier you start investing, the less you will have to contribute each month to achieve your financial goals. If you start saving just **$50** a month at age 25 with a modest 5% annual interest rate, by the time you're 65 you will have over $80,000. However, if you wait until age 35, that monthly contribution doubles to **$100**, and it quadruples to **$200 a month** for those who don't start until age 45.

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