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We welcome your call or email if you have any thoughts you would like to discuss.

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The year wrapped up with a few surprises. The Federal Reserve ended its bond-buying program, yet interest rates declined. Our sluggish economic recovery finally picked up its pace, but oil prices plummeted. The airwaves were buzzing with foreboding coverage of extreme weather conditions, the Ebola virus, computer hackers (North Korea?), atrocities by Islamic State militants, Russian aggression, protests in Hong Kong, and a historic shake-up in Congress from November's elections, and, still, the domestic stock market posted double-digit gains. The U.S. dollar, which had been withering for much of the past decade against other major currencies, suddenly looks like the belle of the ball. Why? In a scary and uncertain world, the U.S. looks surprisingly good.

Let's start with interest rates. Monetary policy actions by the Federal Reserve are some of the most scrutinized events on Wall Street. As promised, the Federal Reserve gradually tapered and, ultimately, ended its "quantitative easing" program of buying bonds on the open market. Without the support of such a prominent bidder, there was concern that bond prices would drop and, therefore, interest rates would rise. That simply did not happen. The yield on bellwether 10-year Treasuries slipped from roughly three percent at the beginning of 2014 to around 2.2 percent by year-end. As a result, it was a calmer year for fixed income than had been widely anticipated.

One of the most visible and welcome surprises in recent months is the decline in the price of gasoline. The underlying price of crude unexpectedly collapsed from a summer peak of more than $100 per barrel to less than $50 per barrel today, as overseas demand for oil slipped, new domestic resources ramped up here in the U.S. and Saudi Arabia decided to maintain their high level of production. Cheaper gas meant more money in the wallets of consumers during the holiday shopping season, to the great relief of retailers, as spending in 2014 registered a historic level of gift-giving cheer. Lower oil prices ripple through the economy in myriad ways, as lower transportation and energy costs affect just about everything that is built, grown and sold in our economy.

Interest rates and oil have something in common. Slowing economic activity outside of the U.S. is widely credited for the collapse of crude prices, as well as introducing a new wrinkle to forecasts for interest rates. China is slowing, Japan is in recession and the Eurozone is teetering on one. Monetary authorities in Europe and Japan are pushing their own versions of quantitative easing, even though interest rates in those regions are already near rock bottom levels. For bond investors, the yields and credit quality of the U.S. are actually attractive, relative to the conditions in the rest of the world. Foreign investors are moving money into the U.S., increasing the demand for our bonds and dollars. Newfound interest in the dollar has pushed up its value by roughly 15 percent relative to other major currencies. This is all good news for consumers. Low interest rates help borrowers, everyone who drives is happy to pay less at the pump, and a stronger dollar makes foreign goods and travel less expensive for American buyers.

These surprises are a reminder of the perils of forecasting, and, yet, here we are at the beginning of a new year, wondering what is in store for the capital markets. The cable news channel CNBC did an informal poll on January 2nd asking the question, "Will 2015 be a good year for stocks?" The result showed 57 percent who said "yes" and 43 percent who said "no." Not exactly a resounding display of optimism, although the same could have been said for 2013 and 2014. Those years looked like a mixed bag of problems and opportunities, yet they turned out to be productive ones for investors. Recognizing that markets are likely to surprise, both on the upside and down, helps us stay on a balanced course with portfolios.

Surprises aside, analysts have been correct in the overriding view that our economy is in a long, slow recovery. We continue to monitor corporate profits, interest rates and employment as factors we believe are central to the outlook for investors. All three of those factors appear positive right now, as corporate profits are forecast to rise by roughly eight percent in the coming year, interest rates are actually lower than most analysts expected and employment is showing welcome signs of improvement. The U.S. finds itself in the fortunate position of being in better shape than most countries around the world. Our opportunities appear greater and our challenges perhaps a bit more manageable than those of our counterparts in other regions.

We hope all your surprises are good ones in 2015, and we send our best wishes to you and your family for good health, happiness and prosperity in this new year.

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