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# WEEKLY INVESTMENT COMMENTARY

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## Happy Birthday, Bull Market

### Markets Look Past Geopolitics to Post Gains

It was March 9, 2009, when the stock market bottomed amid the throes of the financial crisis. The next day marked the start of an upturn, meaning today could be considered the fifth birthday of the current bull market. And, in true celebratory fashion, investors looked beyond the turmoil in the Ukraine to push stocks to further gains. The Dow Jones Industrial Average advanced 0.80% last week to 16,453, while the S&P 500 Index rose 1% to 1,878 and the Nasdaq Composite added 0.65% to close at 4,336. Meanwhile, in fixed income markets, the yield on the 10-year Treasury rose from 2.65% to 2.79%, as prices correspondingly fell.

### Investors Shrug Off Ukraine Concerns

After a negative reaction early last week, the markets quickly got over their jitters about Russia, Ukraine and Crimea. Monday saw a brief selloff and spike in volatility, but the effect was modest. The VIX Index (a widely cited volatility index) crept up to the upper teens, which is still well below its long-term average. By Tuesday, markets recovered and again reached new highs. At the same time, investors began moving out of "safe haven" assets such as Treasuries, which explains why Treasury yields rose (and prices fell) last week.

Part of the turnaround in sentiment can be attributed to some easing of tensions in the region. Russian President Vladimir Putin disavowed any broader territorial ambitions, which caused a collective sigh of relief. Clearly, though, this is a situation that bears close watching. Crimea has scheduled a March 16 referendum that would determine whether the region splits from the Ukraine and joins Russia, a potential move that is being hotly debated among world leaders. As that date approaches, we may see markets paying more attention to this region of the world.

### Economic Data Remain Mixed

Financial markets also benefited from some better-than-expected economic data, including improvements in manufacturing as well as a rebound in the jobs market. The February labor market report showed that 177,000 new jobs were created last month. This represented a significant improvement over December and January, and suggests part of the earlier weakness may, in fact, have been related to the poor weather.

Overall, however, economic data continue to be mixed. Despite last month's uptick in jobs growth, the pace of labor market improvements remains subpar compared to previous economic recoveries. The labor market participation rate remains low and long-term unemployment high, reaffirming that the U.S. jobs market is still



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troubled. Outside of the labor report, the Institute for Supply Management's non-manufacturing survey (a key gauge of the service sector) also sank to a four-year low in February.

### Happy Birthday! And Many More?

In any case, it does seem that investors are looking past weak economic data and that momentum, low interest rates and "good enough" economic and earnings figures have been enough to keep stock prices moving higher. But now that the bull market is entering its sixth year, where does that leave investors?

To start, we would say equities are no longer cheap and that stronger economic growth will be needed to drive earnings and prices higher. But we do believe stock prices are more likely to head higher rather than lower from here. Equities still look like a more attractive option than cash or bonds. Cash investments are effectively paying nothing, and traditional areas of the bond market offer little return after factoring in the effects of inflation and taxes.

As such, we would encourage investors to maintain their emphasis on stocks. Even after a five-year bull market, and prospects for more volatility ahead, both the macro environment (low inflation, low rates and a gradually improving economy) and relative valuations offer sound arguments for overweighting stocks.

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