ECONOMIC AND MARKET SNAPSHOT
(MONTH ENDING MAY 31ST, 2015)

The momentum of global deflationary forces has abated somewhat as oil prices, inflation expectations, and bond yields have recovered from their January lows. However, global growth remains tepid and uneven, and there are few signs of late-cycle pressures in the U.S. The modestly improving global outlook remains underpinned by gains in several large developed economies, particularly in Europe. This steady, low-inflation environment bolstered by easy global monetary policies continues to provide a reasonably positive backdrop for most equity markets

GROWTH

The second estimate of first quarter's Gross Domestic Product (GDP) was revised downward as the U.S. economy shrank at a 0.7% annualized rate. Lower than expected numbers on international trade, manufacturing and wholesale inventories, and retail sales pushed the second estimate into negative territory. Harsh weather and a strong dollar sapped demand for American goods during the first quarter, underscoring the choppiness of an expansion that has struggled to lift off. Despite the downward revisions and weakness throughout the first quarter, we anticipate the expansion continuing at its moderate pace going forward, supported by strong housing numbers in April.

JOBS

The May employment report beat consensus expectations and proved very strong including payroll growth and, more importantly, an uptick in wage growth. Payrolls grew 280,000 during the month of May, well above consensus expectations for 220,000. Average hourly earnings also came in above expectations, growing 2.3% year-over-year, a rate only matched twice during the recovery. The number of workers voluntarily quitting in May increased slightly, suggesting workers are feeling confident enough to leave in search of other jobs, potentially signaling a coming increase in worker bargaining power. Overall, the labor market appears healthy, with May marking the 56th consecutive month in job gains – the longest such stretch on record.

PROFITS

First quarter earnings season for the S&P 500 is all but complete. According to FactSet, 71% of companies have exceeded earnings expectations and 45% have exceeded revenue expectations. As a result of these upside earnings surprises, the blended earnings growth rate for the first quarter is now +0.7%, which is above the estimate of -4.7% at the end of the first quarter. Expected revenue growth for the first quarter has declined to -2.9%, versus the -2.6% estimates at quarter end, reflecting the impact of a strong dollar and the drop in oil prices.

RATES

There were no policy changes in the FOMC's April statement, but it was noted that weakness in U.S. economic data in 1Q is "transitory." However, minutes from the meeting signaled less willingness to begin policy normalization in the first half of the year. Additionally, exceptionally dovish comments from policy makers cast doubts on the timing of rate hikes, even as yields moved higher on stronger U.S. data, and led by yields overseas. Still, the Fed maintains its commitment to raising rates only after further improvement in the labor market and when the Committee has "reasonable confidence" inflation will hit 2% in the medium term.

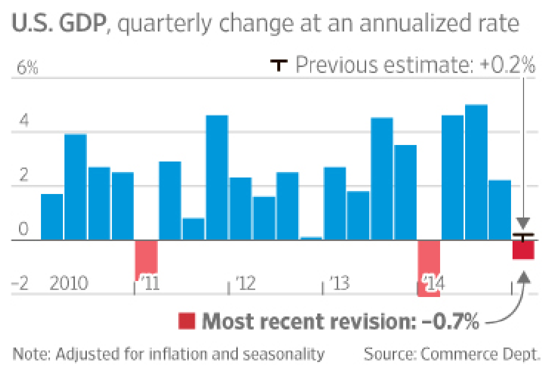
INVESTMENT THEMES

- As we progress through the economic and market cycles, increased volatility in both equity and fixed income investments is to be expected.
- Equities continue to benefit from a slowly improving economy and represent a better proposition than fixed income and cash.
- The past few weeks have seen a notable rise in bond yields and, as a result, volatility in the fixed income markets. Maintaining a balanced and diversified approach within fixed income is prudent.

Sources: J.P. Morgan, LPL Financial Research, CentralBankNews.info, ADP Employment Report, Thomson Reuters, FactSet, Goldman Sachs

ECONOMIC OVERVIEW – STILL WAITING FOR SPRING SNAPBACK

May 2015's economic reports (which largely reflect economic activity in April 2015) extended the recent theme of a slower than expected snapback from the first quarter economic weakness, which was due largely to temporary factors (unusually harsh winter weather in areas of the country, a major West Coast port strike, the strong dollar's impact on trade, and a sharp reduction of oil-related capital expenditures). March data had improved in last month's economic reports but had largely missed economists' raised expectations. May reports have also had their share of disappointments, but some upside surprises have begun to appear, especially toward the latter half of the month.

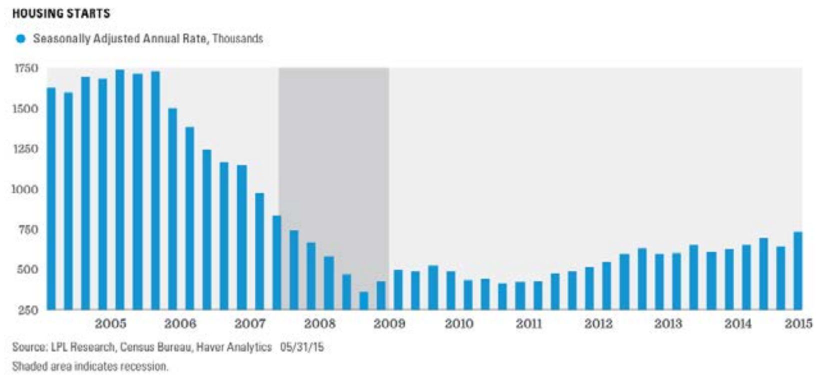


While disappointing, the contraction in U.S. Gross Domestic Product (GDP) was certainly anticipated. The second revision showed the U.S. economy shrinking at a 0.7% annualized rate in the first quarter, a significant downward revision from the first estimate of 0.2% growth. This marks the third time of the expansion that the official measure of GDP has fallen into negative territory – highlighting the fragility of the expansion. Most economists expect the economy to regain steam as the year unfolds, and early signs are pointing to a slight spring rebound. According to the latest consensus expectations, GDP is expecteded to grow at a roughly 2% pace in the 2nd quarter.

Amongst these early signs of a spring rebound was in the release of the Department of Labor's Employment Situation report released on June 5th. U.S. employers ramped up hiring last month as the economy gained 280,000 Jobs in May - well above consensus expectations of 220,000 jobs. The report also indicated American's paychecks are finally starting to grow as hourly earnings rose 0.3% from the prior month and were up 2.3% year-over-year – the strongest gain since August 2013. Wage growth has been dormant for much of the expansion and further increases should bode well for the consumer whom accounts for approximately 68% of growth in GDP. While the overall pickup in wages is far from robust, it suggests competition for workers is intensifying – an important signal of diminshing slack in the labor market. A large increase in construction sector jobs over the past two months may foreshadow possible increased housing activity following winter-delayed projects. The participation rate, which had fallen to multi-decade lows, ticked 0.1% higher and appears to be stabilizing. While the results probably aren't enough to raise expectations for a rate hike at this month's Fed Meeting, it will certainly be enough to raise talk for a hike at the September meeting.

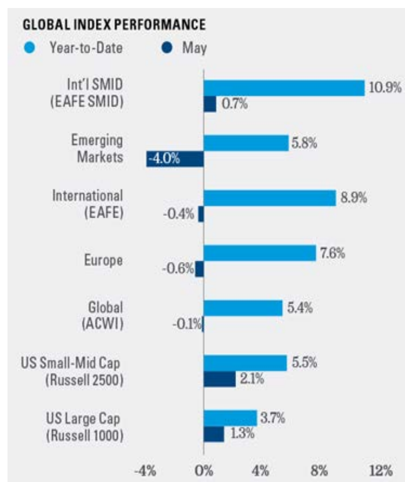
Overall retail sales were unchanged between March and April, defying expectations of a 0.5% gain. However, the March reading was revised higher, from +0.9% to +1.1%. Despite the weaker than expected April reading, core retail sales in Q2 are running 2% ahead of Q1's level after just a 0.5% gain in Q1. Consumers continue to divert income gains and money saved from lower gas prices toward savings and paying down debt, which can have long-term benefits, but is currently acting as a drag on short-term economic growth.

Housing data provided one of the largest upside surprises this month and provides another sign of a potential spring rebound. Housing starts jumped 20%, the largest move in over 20 years. New permits also provided a large upside surprise, rising 10%, suggesting that the April jump in starts was not simply due to winter weather delays. Housing prices (the S&P/Case-Shiller Home Price Index) and new home sales also both topped economist consensus expectations. New housing permits, a guage that foretells new construction activity as most localities require permits prior to building, is a component of the Conference Board's Leading Economic Index (LEI). The rebound in permits helped the index rise 0.7% month over month in the May report, easily topping expectations and posting its largest gain since July 2014.



GLOBAL EQUITIES: DOMESTIC EQUITIES GRIND HIGHER

Domestic equities continued to climb higher in May, with the S&P 500 Index hitting a new high before posting a total return of 1.3%. Despite pockets of resistance that caused modest volatility, the index did not post a one-day move of more than 1.5% (up or down) during the month. Stock prices were buoyed by a still supportive Fed, continued expectations of an economic snapback once the impact of temporary factors fully rolls off, greater stability in international developed markets, and an expected acceleration in earnings growth over the back half of the year. The total return of the S&P 500, as of the end of May, stands at 3.2% for the year.



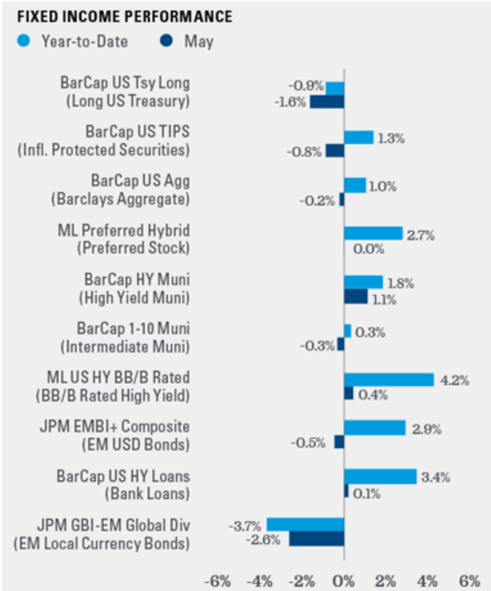
Gains for the quarter were broad based with 8 of 10 equity sectors advancing. Healthcare topped the sector leaderboard, supported by the strongest first quarter earnings surprises among all sectors, powered by the biotechnology industry. Small caps had a strong month, with the Russell 2000 outperforming the S&P 500 by almost 1%, buoyed by its growth segment as investors search for growth opportunities in an environment marked by low growth.

After starting the year strong, both international developed markets, as measured by the MSCI EAFE Index, and emerging markets, as measured by the MSCI Emerging Markets Index, stalled in May. A series of upside economic surprises earlier in the year had raised expectations about European data, leading to May's economic data falling back in-line with economists' raised consensus forecasts. European shares were also weighed down by ongoing uncertainty around Greece's efforts to renegotiate terms with its creditors. Japan was more resilient among international developed markets with improved earnings results and a series of positive economic surprises.

Emerging markets performance was significantly weaker than international developed markets in May, falling over 4%. Despite the fact that emerging market economies are growing faster than the United States and the world as a whole, growth rates have slowed from previous levels. That deceleration has continued to hurt emerging market equity returns. However, it appears that this deceleration has stabilized and is generally reflected in current valuations; therefore any improvement in growth rates will likely provide tailwinds for returns going forward.

FIXED INCOME: INTEREST RATES CONTINUE THEIR TREND UPWARD

The past few weeks have seen a notable rise in bond yields, in many cases bringing them to year-to-date highs. A stream of better news from developed economies, including improving construction, better vehicle sales, and strong jobs numbers in the U.S., coupled with signs that inflation may be picking up in Europe, has led to an increase in investors' nominal growth expectations, placing upward pressure on yields (and downward pressure on prices).



US TREASURY YIELDS

Security	4/30/15	5/31/15	Change in Yield
3 Month	0.01	0.01	0.00
2 Year	0.58	0.61	0.03
5 Year	1.43	1.49	0.06
10 Year	2.05	2.12	0.07
30 Year	2.75	2.88	0.13

AAA MUNICIPAL YIELDS

Security	4/30/15	5/31/15	Change in Yield
2 Year	0.56	0.61	0.05
5 Year	1.33	1.41	0.08
10 Year	2.38	2.43	0.05
20 Year	3.77	3.87	0.10
30 Year	4.44	4.57	0.13

Source: LPL Research, Bloomberg, FactSet 05/31/15

With the headwind of rising interest rates, May proved to be a challenging month for the bond market, continuing the price declines witnessed at the end of April, before stabilizing late in the month. The Barclays U.S. Aggregate Bond Index declined by 0.24% during May – marking the first time since the end of 2013 that the Barclays Aggregate has posted consecutive monthly declines. The lower returns also reflected the low-yield environment where interest income is less able to buffer against price declines associated with rising interest rates.

Municipal bonds, while continuing to offer a relative value within fixed income markets, were not immune from the headwinds and underperformed their treasury counterparts with the Barclays 1-10 Year Muni-Bond Index falling 0.3% for the month. Despite the weak performance for the month, municipals may be poised for a rebound in the coming months as they continue to look very attractive relative to government bonds – with 10-year municipals yielding 2.43% relative to the 2.12% yield offered by their taxable counterparts.

However, some areas of the bond market saw more muted moves, as sectors like high yield saw spreads decline but absolute yields remain unchanged, highlighting the benefits of diversification within the asset class. While the recent moves in interest rates seems a bit aggressive, more volatility likely lies ahead. However, it is important to remember these moves appear particularly extreme because yields are moving around historically low levels.

While a June rate hike initiated by the Federal Reserve is likely off the table, our expectations remain that better economic performance in the coming months will justify a rate hike in the later half of the year – leading to additional volatility within fixed income. Hence, Legacy's strategy continues to be on the defensive side; by maintaining a significant underweight to fixed income through a balanced and diversified portfolio.

FIVE HIGHLIGHTS

- While first quarter economic data was discouraging for investors, we believe some of the factors that depressed economic activity have already reversed and look for a growth rebound in the second quarter.
- The global economy continues to paint a mixed picture, but a broad based move toward even greater monetary easing outside the U.S. continues to push equity markets higher.
- We continue to believe the Fed is likely to raise rates sometime in the late part of 2015 and therefore maintain a defensive, well diversified, posture within our fixed income portfolios.
- The steady, low-inflation environment bolstered by easy global monetary policies continues to provide a reasonably positive backdrop for most equity markets.
- With almost half of S&P 500 corporate revenues generated outside of the U.S., many corporations have taken a hit to earnings from the rapid appreciation of the dollar. Earnings growth should rebound later this year as the dollar stabilizes and the economy rebounds.

Sources: MSCI, Barclays Capital, Bloomberg LP, WSJ, The Economist, FactSet, Russell, Thomson-Reuters, J.P. Morgan, Barclays Capital, Goldman Sachs, LPL Financial Research, Fidelity Investments.