THE ECONOMIC MONTH IN REVIEW AND OUTLOOK – MARCH

US Markets and Economy: American stocks rallied to new all-time highs in early March, but then settled into a trading range through the end of the month. In spite of a relatively flat March, the S+P 500 Index managed to post a gain for the first quarter of the year, adding to the substantial gains of 2013, and extending the bull market into its fifth year. The birthday celebration was more muted on the NASDAQ, with high-flying stocks like LinkedIn, Facebook, and Google leading the NASDAQ Index lower for the month. These declines can be part of a healthy corrective process in a bull market, keeping enthusiasm for stocks from driving prices to unsustainable levels, and rotating interest to more reasonably priced sectors of the market. The general enthusiasm for stocks has unfortunately spilled over to the US IPO market, with many new issues of stocks of "story" companies with no actual earnings. **Investors with a long-term horizon should avoid these companies, whose stocks often underperform the market in the long-run.**

Continued strength in equity prices has been driven by two main forces: steady growth in corporate profits, and extremely low interest rates. Corporate profits have been rising as a proportion of GDP for years, and are now approaching 10% of GDP in the US. This upward trend means that even with slow growth in US GDP, corporate profits can race ahead and support rising equity prices. At the same time, the US Federal Reserve, under new chief Janet Yellen, has restated its commitment to keep short-term interest rates near zero until at least 2015. This easy money stance also supports rising stock prices, since alternatives to stocks like cash and high-quality bonds offer such meager yields. Even though the Fed is continuing to "taper" its Quantitative Easing (QE) program, the commitment to low interest rates is strong. In her public comments, Janet Yellen has made it clear that she believes that monetary policy can continue to propel the economy forward toward full employment, without risk of substantial inflation. Recent data bear her out: unemployment remains well above the 4% level it reached before the credit and economic collapse of 2007-09, and inflation remains quite subdued at 1%.

Although US GDP growth remains subpar (part of the reason unemployment remains elevated), the arrival of spring and the end of an unusually cold and snowy winter should also bring faster growth. Even the housing sector, a bulwark of the recovery in the last few years, has been held back by bad weather in much of the US this winter. With inventories of homes for sale at very low levels, better weather should mean a resumption of rising prices and construction activity, supporting faster economic growth in the second and third quarters of 2014. Businesses may also decide to increase spending and hiring this year, as fiscal and health-care policy uncertainty continue to abate.

World Markets and Economy: The economic news in Europe has been better too, even if the political news (Crimea) is disturbing. While Europe is still mired in a cycle of slow or zero growth, Greece, the epicenter of economic crisis in recent years, is receiving new loans from the Troika (the IMF, European Central Bank (ECB), and European Commission). The Greeks report they have a primary budget surplus, meaning that their spending and revenues are now balanced before accounting for interest payments. This is no mean feat for a government which has had to slash bloated spending repeatedly, with unemployment hovering above 25%. Greek stocks, after a good showing in March, are now up 60% over the past year, and this optimism has also led to strong March gains for stocks in Spain, Portugal and Italy, with all three country indexes up by 40-50% over the past year. German and French stocks were flat in March, but still sport 20+% gains over the last 12 months. Greek bond bulls have also been in control: bond prices have risen enough to push yields on the 10-year Greek bond down to 6.2%, about half of its yield a year ago, and ¼ of its yield at the worst of the Eurozone crisis. European stocks and bonds have also been buoyed by the possibility that the ECB will resort to its own Quantitative Easing (QE) to stimulate the economy, and keep very low inflation from turning into deflation.

Asian markets have been decidedly downbeat by comparison with Europe and the US. Japanese stocks are still down about 10% for the year after a flat March, while Chinese stocks are still mired in a multi-year bear market. Even though Chinese stocks rose in March, they are still 40% below their 2009 peak. The Chinese miracle of steady 10% real growth is likely over, with slowing growth, concerns about pollution, social unrest, and potential conflicts with its neighbors taking center stage.

OUTLOOK:

The US bull market is still intact, but investors should not expect a repeat of 2013's blazing rise. A mature bull market is subject to corrections of at least 5%, and often 10%, which are Wall Street's way of removing froth from the market. While 2014 could be more volatile than 2013, long-term investors are rewarded handsomely for ignoring short-term gyrations and keeping their eyes on the prize of long-term growth, which stocks have provided over the last century.