The following charts and comments are meant to augment the positions laid out in our 2015 Economic and Stock Market Outlook (Weight of the Evidence Pointing North).

Except where otherwise noted, the source for these charts is Ned Davis Research.

*Our approach is more about managing risk than making forecasts and the current evidence tilts bullish*

### Fundamental Factors

- Federal Reserve Policy: **Bullish** +1
- Economic Fundamentals: **Bullish** +1
- Valuations: **Bearish** -1

### Technical Factors

- Investor Sentiment: **Neutral** 0
- Seasonal Influences: **Bullish** +1
- Tape: **Neutral** 0

*Weight of the Evidence = +2 Mildly Bullish*
In a secular bull, forecasts go from being consistently too optimistic to too pessimistic.

Secular bull markets are also marked by clusters of new market highs.
With QE done with and the Fed now on the sidelines, monetary growth is cooling

Credit conditions remain favorable however
FOMC members think the Fed may begin raising rates in 2015 – we are skeptical

Source: Federal Reserve

History suggests stocks could rally into and in the wake of initial rate hikes

Source: S&P Dow Jones Indices
Despite many investors looking for it, a rising rate environment remains elusive.

**10-Year T-Note Yield and Trend**

Based on inflation and other bond yields, 10-year T-Notes appear fairly valued.
Economic growth is improving but putting multiple quarters of strength together is key

We've just seen the best six months of GDP growth in a decade

Strong business activity reflected in the ISM data is bullish for stocks
Inflation remains below the Fed’s 2% target

Better savings rates could help new firm formation, and the economy overall
Wage growth remains lackluster, although it could drift higher in 2015

Valuations suggest stock prices are overbought relative to fundamentals
Overvaluation may depress forward returns, and is a primary risk for stocks in 2015

Relative weakness in small-caps in 2014 removed the large-cap valuation advantage
The crowd is showing excessive optimism as we head into 2015

Views on Main Street are improving, but confidence remains muted
Household exposure to equities is approaching levels seen in 2000 and 2007

Investor illiquidity could make for a bumpy ride in 2015
Years ending in “5” have not been down over the past century-plus

The strongest part of the entire Presidential Cycle persists into mid-2015
Breadth deteriorated over the course of 2014 but is now showing signs of improving

**S&P 500 and Industry Group Breadth**

Increased rally participation late in 2014 bodes well for 2015
Based on new highs/lows, breadth remains out of gear heading into 2015

U.S. stocks remain in an up-trend versus the rest of the world

Source: StockCharts
Small-caps underperformed large-caps in 2014, but 2015 could be different

If the Presidential Cycle holds, small-caps could lead large-caps in the H1 2015
Emerging markets are struggling to assert leadership relative to Developed markets

Despite signs of stabilizing in early 2014, gold remains in a downtrend

Source: StockCharts
Domestic energy production has soared in recent years

More evidence emerged in 2014 that the commodity super-cycle has peaked
The drop in oil prices provides a boost to the economy and the stock market

Relief at the gas pump could provide a real boost to a still-struggling middle class

Real Median Household Income

Real median household income for all American households.
Source: Census Bureau, Income & Poverty in the United States, 2013
Appendix – Important Disclosures and Analyst Certification

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST
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