

EVERGREEN INSIGHTS: A WEEKLY SNAPSHOT

FEBRUARY 2, 2015

Top News Headlines

- 1) US Stocks Fall as Stronger Dollar and Lower Oil Drive Weaker Earnings
- 2) European Bond Yields Fall to New Lows
- 3) Patriots Fourth Quarter Interception Clinches Super Bowl XLIX over Seattle Seahawks

Economic News

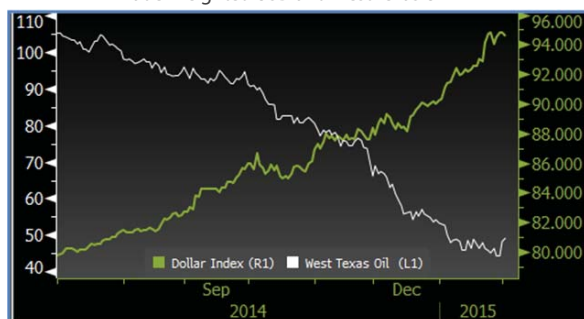
- US jobless claims last week fell to a fifteen year low with only 265k filling for unemployment
- Q4 GDP missed expectations with 2.6% growth as business investment slumped
- Lower oil prices, improving employment sent US consumer confidence to a seven-year high
- Eurozone inflation fell further in January to -0.6% YoY, the lowest print since 2009
- Japanese household spending plunged -3.4% in December, a sign monetary policy is boosting growth

Thought of the Week

Last week, over 140 companies in the S&P 500 reported earnings. The key takeaway from the results is that it appears growth in the first half of 2015 will be less than previously expected. The main culprits for corporations lowering these guidance figures are a stronger dollar and lower oil prices. The trade-weighted dollar is up over 18% since last June, with oil plunging by over 50% in that same time frame. And with nearly 50% of earnings from the S&P 500 outside the US, a stronger dollar has meant a less competitive environment for multi-nationals. Lower oil prices also drag on energy companies' profitability, which make up 12% of the S&P 500. This combo has resulted in both dampened expectations for 2015 and a poor start to the year for stocks. In fact, according to Zack's Investment Research, over the last three months, YoY growth expectations for Q1 and Q2 earnings fell from 10.8% and 7.4%, to now 0.4% and -1.8%. We believe there's a chance we could actually get a profits recession this year, which would be two quarters of falling profits. If this scenario plays out, we believe the multiples investors are currently paying for stocks don't justify the lower underlying growth fundamentals.

Chart of the Week

Trade-Weighted USD and West Texas Oil



Source: Bloomberg, Evergreen GaveKal

Index Levels	Friday Close 1/30/15	Prior Week 1/23/15	Year End 12/31/14	Year Ago 1/30/14
S&P 500	1995	2052	2059	1794
Dow Jones 30	17165	17673	17823	15849
Nasdaq	4635	4758	4736	4123
Russell 2000	1165	1189	1205	1139

Market Returns	1 week	1 month	YTD	1 Year
S&P 500	-2.8%	-3.0%	-3.0%	13.5%
Russell 2000	-2.0%	-3.2%	-3.2%	3.6%
Barclays Agg	0.6%	2.1%	2.1%	6.7%
MSCI World	-1.7%	-1.8%	-1.8%	7.1%
MSCI Europe	-0.9%	7.3%	7.3%	17.2%
MSCI Japan	0.5%	0.3%	0.3%	17.7%
MSCI China	-2.9%	2.3%	2.3%	18.5%
MSCI Brazil	-7.2%	-6.4%	-6.4%	-8.9%
MSCI Emerging Markets	-3.2%	0.6%	0.6%	5.5%

Market Valuations	P/E Trailing	P/E Forward	P/Sales	Dividend Yield
S&P 500	17.6	16.7	1.8	2.0
Russell 2000	19.4	15.5	1.2	1.4
FTSE 100 (Europe)	19.6	15.2	1.0	4.5
Hang Seng (Hong Kong)	10.4	11.4	1.8	3.7

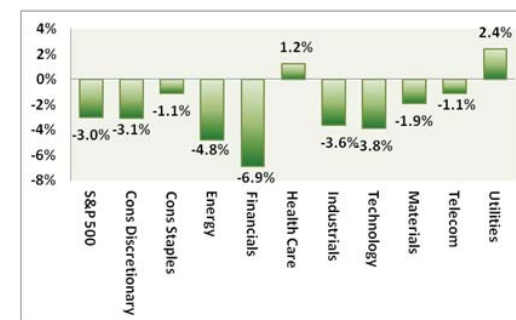
Bond Yields	Friday Close 1/30/15	Prior Week 1/23/15	Year End 12/31/14	Year Ago 1/30/14
Fed Funds Target	0.25	0.25	0.25	0.25
2 Year Treasury	0.45	0.49	0.67	0.35
10 Year Treasury	1.64	1.80	2.17	2.70
Investment Grade	3.26	3.36	3.70	3.75
Muni Yield	2.60	2.29	2.32	3.10
High Yield	6.38	6.43	6.80	5.99

Consumer Rates				
15 Year Mortgage	2.90	2.95	3.09	3.36
30 Year Mortgage	3.79	3.84	3.99	4.31
Consumer Confidence	102.90	93.10	92.60	77.54

Commodities				
Gold	1275.6	1289.8	1188.0	1244.0
Silver	17.2	18.3	15.7	19.2
WTI Crude Oil	48.2	45.6	53.3	98.2
Natural Gas	2.7	3.0	2.9	5.0

Currency				
Dollar Index	94.80	94.76	90.27	81.09
\$ per Euro	1.129	1.126	1.210	1.355
Yen per \$	117.42	117.84	119.84	102.79
CAD per \$	1.272	1.240	1.162	1.117

S&P 500 YTD Sector Returns



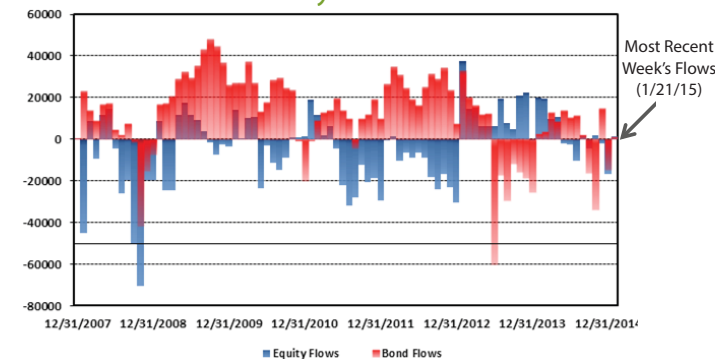
YTD Market Style Returns

	Large Cap	Mid Cap	Small Cap
Growth	-1.5%	-1.7%	-2.3%
Value	-4.0%	-1.4%	-4.2%

Like Dislike

(\$ millions)

Monthly Fund Flows



Market question of the week:

Approximately what percentage of outstanding Japanese Government Bonds does the country's Central Bank own?

- a) 20% b) 40% c) 60%

Trivia question of the week:

Novak Djokovic won his fifth Australian Open title, defeating Andy Murray. How many times has he lost the prestigious tournament after reaching the final?

- a) 0 b) 1 c) 2

Answers : b) 40% a) 0

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Note: All returns represent total return including dividends
YTD Market Style Returns are based on the Russell indices. Please see important disclosure on next page.

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Benchmark indices are provided in this material for comparison with well-known and widely recognized indices from various market capitalizations, asset classes, markets around the world, and economic data. You cannot invest directly in an index. Index results assume the re-investment of all dividends and capital gains.

The S&P 500 is a market-capitalization weighted index that includes the 500 most widely held companies chosen with respect to market size, liquidity, and industry. The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The National Association of Securities Dealers Automated Quotation (NASDAQ) System is a nationwide computerized quotation system for over 5,500 over-the-counter stocks. The index is compiled of more than 4,800 stocks that are traded via this system. The FTSE 100 Index is an index of the 100 largest companies (by market capitalization) in the United Kingdom. A market capitalization-weighted index of 40 of the largest companies that trade on the Hong Kong Exchange. The Hang Seng Index is maintained by a subsidiary of Hang Seng Bank, and has been published since 1969. The index aims to capture the leadership of the Hong Kong exchange, and covers approximately 65% of its total market capitalization. The Hang Seng members are also classified into one of four sub-indexes based on the main lines of business including commerce and industry, finance, utilities and properties.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market. The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Value Index contains those Russell 1000 companies that have higher book-to-price ratios, and thus a less-than-average growth orientation, than the remaining companies in the Russell 1000 Index that encompass the Russell 1000 Growth Index. The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index. The Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth rates. The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000 Index is an unmanaged index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Value Index is constructed to provide a comprehensive and unbiased barometer of the small-cap value market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine value probability approximates the aggregate small-cap value manager's opportunity set. The Russell 3000 Index is a market capitalization weighted index that measures the performance of the 3,000 largest U.S. companies representing approximately 98% of the investable U.S. equity market.

The Morgan Stanley Capital International (MSCI) World Index is a market capitalization weighted index composed of companies representative of the market structure of 23 Developed Market countries in North America, Europe and the Asia/Pacific Region. The MSCI Europe Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Europe Index consists of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. The MSCI China Index covers the large and mid cap segments in the China and is constructed according to the MSCI Global Investable Market Indices Methodology. The MSCI China Index is part of the MSCI Emerging Markets Index. The MSCI Brazil Index is designed to measure the performance of the large and mid cap segments of the Brazilian market with 81 constituents. The MSCI Brazil Index covers about 84% of the Brazilian equity universe. The volatility of these indices may be materially different from that of the representative account.