

**COMMENTARY FROM THE INVESTMENT COMMITTEE
OF CORAL GABLES TRUST COMPANY****Q1 – 2015 OVERVIEW**

The first quarter of 2015 started with a chilling decline as weather concerns in the U.S. and currency volatility worldwide had global markets heading for cover in January. Markets gained their footing after the ECB announced its long-awaited QE program for the Eurozone causing markets to stage a rebound in February through March. The quarter found the MSCI All Country World Index trading in a wild range of -3.00% to +4.00%. At home, the S&P 500 gained +0.95% for the quarter while the Dow squeaked by with a +0.33% gain. The February jobs report produced a particularly strong print of 295,000 jobs while the March jobs number was sharply lower at 126,000 resulting in confusion as to the strength of the U.S. labor market. In March the Fed dropped the word “patient” from its rhetoric in regard to increasing short-term rates but still remained generally dovish in its outlook. The FOMC Committee will remain data dependent and signaled that a rate increase could happen at any time after April 2015. Most pundits expect the move to come in the fall of 2015. Activity at home was overshadowed by action overseas as Germany’s DAX rose +22%, Japan’s Nikkei finished up +10% and the UK FTSE capped off the quarter with a modest +5% increase. Given the size and strength of the monetary accommodation occurring in the Eurozone and Japan, investors are finally warming up to opportunities beyond the U.S. Oil remains a hot topic as many sources have cited that continued over supply is starting to translate to a reduced rig count and project cancellations or deferrals. Part of the stabilization in equity markets in February and March was due to the fact that oil prices did settle down. Quarterly earnings are expected to come in at a -4.6% decline YOY for the S&P 500 mainly due to commodity headwinds and the strong dollar. The 12-month forward P/E for the S&P currently sits at 16.7x which is above the 10-year average of 14.1x. The markets are modestly overvalued given recent history but with interest rates at historic lows and lack of other investment opportunities, demand for equities will continue to exist.

The search for yield in fixed income markets became even more difficult than at the start of the year. The U.S. 10-year treasury started the year at 2.17% and finished Q1 at 1.93%. The U.S. Barclays Capital US Aggregate index returned 1.61% for the quarter. The German 10-year bund ended Q1 2015 at 0.18% down from 0.54% at year end. Over a quarter of the yields in the Eurozone are in negative territory for the first time in history. The longer end of the treasury curve continues to show strength due to a lack of competition from overseas credit markets. The Barclays 20-year Treasury index is up over 15% over the trailing one year period ending March 31, 2015. The CGT fixed income model returned 1.15% in the quarter due to a more modest duration posture of less than four years. The TIC still unanimously agrees to be mindful of our duration exposure as interest rates and inflation could start to rise at any time.

ASSET ALLOCATION SUMMARY

During its January through March 2015 meetings, the CGTC Investment Committee elected to keep its asset allocation for balanced model portfolios at 55% equities, 40% fixed income and 5% cash. The Committee decided to add a value manager in the small and mid-cap arena to offset its mid-cap growth exposure. Small and mid-cap companies are less susceptible to a strong dollar as a majority of the revenues from these companies are U.S. based. The international weight in the equity model is currently at 30% of the overall. Discussions have surfaced about adding to international based on relative valuation and ECB monetary policy initiatives. It's too early to tell if QE has translated to the broader Euro economy, however, we believe valuations reflect a significant portion of the bad news out of the Eurozone. We have been patient with our foreign exposure and there are early signs that Europe is starting to recover. The fixed income allocation is another important issue the Committee continues to discuss. We are currently positioned for a rising interest rate environment but other factors like currency movements have led us to reduce our foreign credit exposure in favor of the U.S. We are currently overweight credit vs. government and have a reasonable duration of less than four years. In select cases where we utilize municipal fixed income we diversify nationwide using a laddered bond approach. Our maturities remain within 15 years in most cases and all purchases are of investment grade quality.

***NOTABLE MANAGER PERFORMANCE**

Based upon year-to-date performance as of March 31, 2015, we are pleased with the results that a number of our managers have been able to deliver.

<i><u>Our Managers</u></i>		<i><u>Benchmark or Category</u></i>	
Doubleline Emerg. Mkts. Bond	0.43%	US Emerging Markets Bond	-0.44%
T. Rowe Price Large Cap Growth	5.49%	Russell 1000 Growth	3.84%
AMI Large Cap Growth	7.43%	Russell 1000 Growth	3.84%
Harbor International	5.77%	Morningstar Foreign Large Blend	4.68%
Dana Investment Adv LC Core	2.75%	S&P 500	0.95%
T. Rowe Price Mid-Cap Equity	6.52%	Morningstar Mid-Cap Growth	5.35%
AB Discovery Value	3.11%	Russell 2500 Value	3.02%

We look forward to speaking with all of our clients regarding our views and the performance of their respective portfolios, and we thank you for your continued confidence in our team and our firm.

For additional information or questions, please contact Mason Williams, CIO, at 786-497-1214, or mwilliams@cgtrust.com.

****Past performance is not indicative of future results. Investments may lose value***