Monthly Market Commentary

In recent international news, the eurozone and Greece agreed to extend Greece's aid program, which helped European and North American stock markets to dash to the upside along with higher interest rates.

Employment: The U.S. economy added a surprisingly strong 295,000 jobs in February, well ahead of the market's expectation that just 240,000 jobs would be added. The growth figure was also well above the 12-month average of 275,000 jobs added.

However, the trend over the past several years has been that, despite seasonal adjustments, job growth has looked remarkably strong in late winter and early spring, only to fall apart over the summer months. Based on this trend and other soft spots in the economy, Morningstar economists caution that this may be the best jobs report we see for some time.

The business and professional services sector added 51,000 jobs, which is great news because these jobs have long hours and great pay. This is also the sector that includes most of the office professionals who quickly come to mind when we think about quality jobs.

The unemployment rate dropped to 5.5%, the high end of the 5.0%–5.5% range considered to be the natural, or normal, rate of unemployment. This tends to support Morningstar economists' long-term thesis that we are approaching the point where labor market scarcities are going to become more prevalent.

This relatively low unemployment rate is also likely to make the Federal Reserve more prone to raise rates. The whole reason the Fed forced interest rates so abnormally low was to aid the employment market. That work now looks largely complete. However, with inflation rates (the other half of the Fed mandate) so low, they won't necessarily have to rush. Morningstar economists remain convinced that 2015 will be the year the Fed tightens, but the exact month this will occur remains frustratingly elusive.

Manufacturing: The ISM Purchasing Managers Index for manufacturing slipped modestly in February from 53.5 to 52.9. Year-over-year growth in industrial production (what ISM is meant to forecast) has remained relatively stable over the past several months. However, the move to 52 from 57 last summer suggests that manufacturing isn't accelerating any more. And the auto industry, while improving, is also beginning to slow.

After industrial production peaked at just over 5%, year over year, manufacturing growth is likely to drop back to a 3%–4% growth rate in 2015, but still above the long-term average of 2.6%. Nevertheless, this expected manufacturing growth reduction is one of the reasons that Morningstar economists are less bullish than others on the GDP outlook for 2015.

Housing: Home prices jumped by 1.1% between December and January, according to the latest CoreLogic report. Higher home prices at this point in the recovery are not necessarily a good thing for the economy. Higher prices have reduced affordability and certainly affected existing-home sales in 2014.

Gasoline prices were up almost 10% in February, after falling 17% in January. Furthermore, based on refinery issues, especially in California, and a relatively higher price of crude, the AAA is projecting that gasoline will be up at least another $0.20 in March, or about an additional 8%.

U.S exports didn't look good either, declining 2.9%, although labor issues at West Coast ports may be part of the problem. Weekly shopping center growth rates also continued to slow. Consumer incomes were one of the bright spots, with a month-to-month increase of 0.9%. However, consumers refused to spend their newfound wealth, at least for now, as the savings rate has moved up from 4.5% to 5.5% over the past two months. That could provide some fire power for additional consumer spending in the months ahead.