Capital Markets Commentary: December 2013

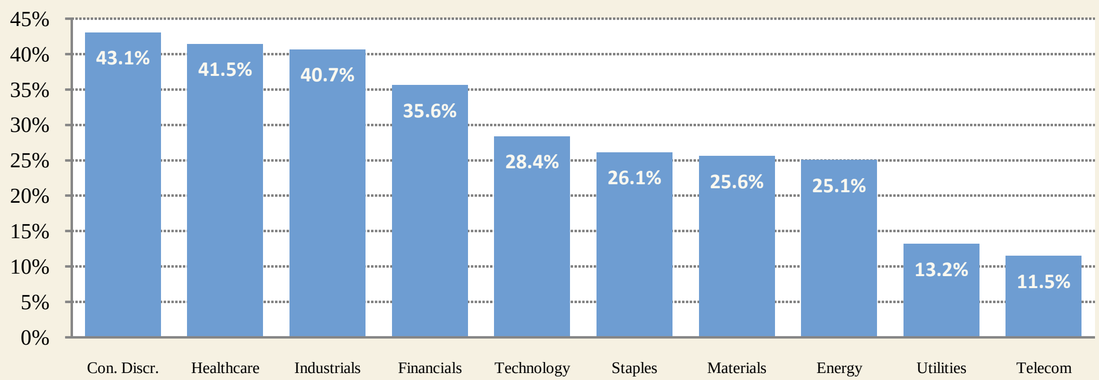
Stocks rallied sharply in the 4th quarter, finishing off a very strong year that moved both the S&P 500 and Dow Jones Industrial Average to record highs at year end. A resolution to the government shutdown that also pushed out the debt ceiling debate into 2014 was well received by the market. A Fed announcement that it would slow its bond buying program was also well received, as most viewed it as a sign the economy was improving. The S&P 500 return for the year was its best since 1997.

Interest rates continued to move higher in the 4th quarter, as they did much of the year. The 10 year treasury note yield topped 3% late in the quarter for the first time since 2011. The Barclays Aggregate Bond Index posted a small loss for the quarter and lost 2% for the year.

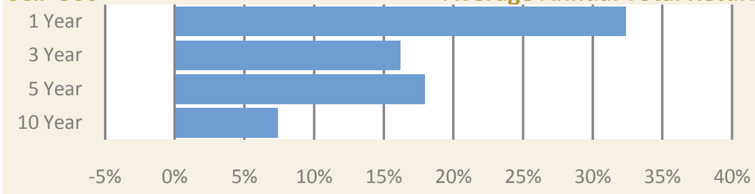
Industrials and Technology were the best performing sectors in the stock market during the 4th quarter. Utilities and Telecommunications were the weakest sectors in the market as higher yielding stocks continued to underperform the overall market on concerns about higher interest rates.

Looking ahead to 2014, corporate earnings will likely be the driver of stock prices. The Price to Earnings ratio of the stock market has moved back up to historic averages over the last few years, so further P/E multiple expansion is unlikely to continue to push the market higher. Even so, most expect stocks to produce positive returns in 2014 given corporate earnings are expected to grow and strong corporate balance sheets should support continued dividend increases and share repurchase activity.

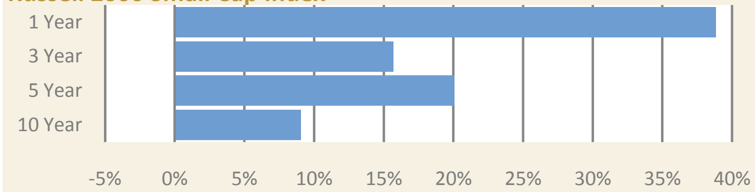
S&P 500 Index: Sector Returns Year-to-Date



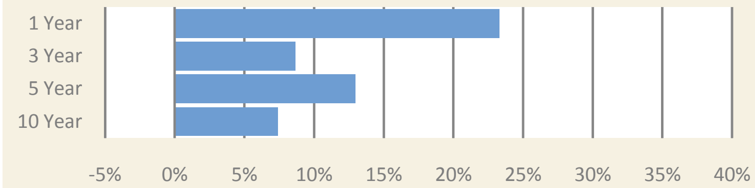
S&P 500 **Average Annual Total Return**



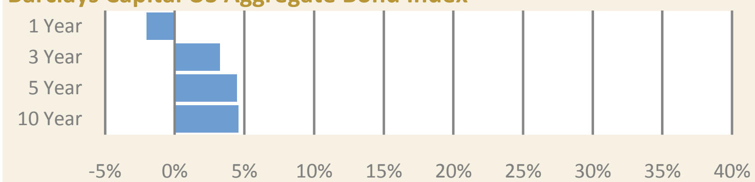
Russell 2000 Small Cap Index



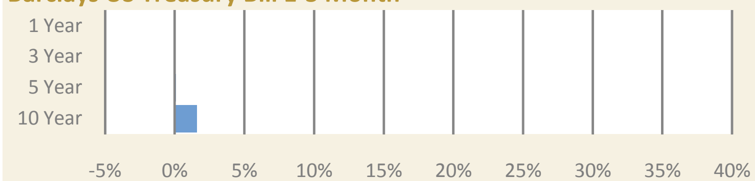
MSCI EAFE International Index



Barclays Capital US Aggregate Bond Index



Barclays US Treasury Bill 1-3 Month



Source: Morningstar