Capital Markets Commentary: March 2014

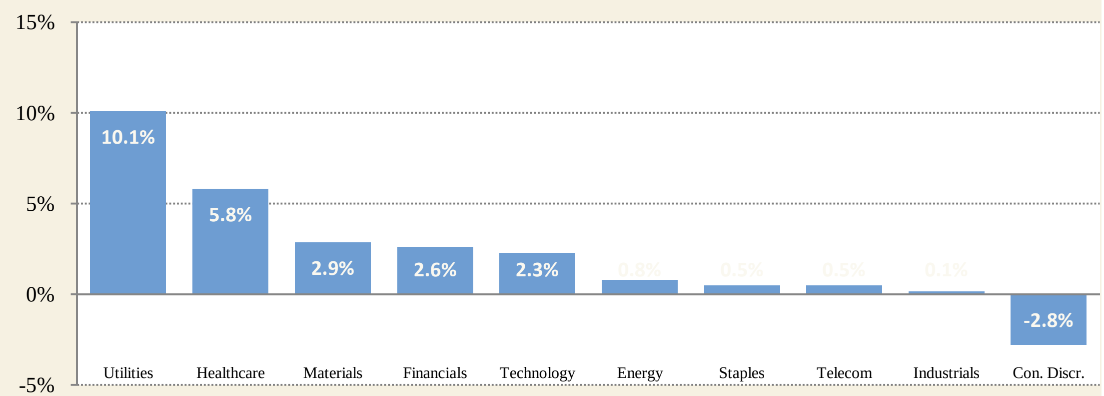
The S&P 500 posted a gain of 1.8% for the first three months of the year, its 5th consecutive positive quarter. Concerns about slowing emerging market growth, escalating tensions between Russia and Ukraine, a new Fed Chairman, and mixed U.S. economic data led to increased volatility throughout the quarter. The market declined in January, but began a rebound in early February that pushed the S&P 500 and Dow to all-time highs and the NASDAQ to levels not seen since 2000.

Interest rates moved lower during the quarter, reversing course from the 2013 move higher. The 10 year treasury note yield began the year near 3%, but ended the quarter at 2.74%. The Barclays Aggregate Bond Index also gained 1.8% for the quarter, earning back most of its 2% loss in 2013.

The lower interest rates helped boost utility stocks, which were the best performing sector in the stock market during the quarter. Consumer Discretionary stocks were weakest, on concerns the abysmal winter weather slowed consumer spending. Retailers and automakers were particularly weak throughout the quarter.

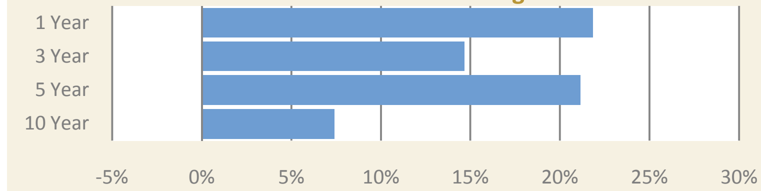
Looking forward, stocks appear fairly valued at current Price to Earnings levels. Further stock market gains are likely to be driven by corporate earnings growth, rather than the P/E multiple expansion of prior years. The earnings outlook seems to be improving, as most expect earnings growth to accelerate from the modest growth of the last 2 years. The current consensus forecast projects 8% growth in S&P 500 Earnings per Share for 2014.

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

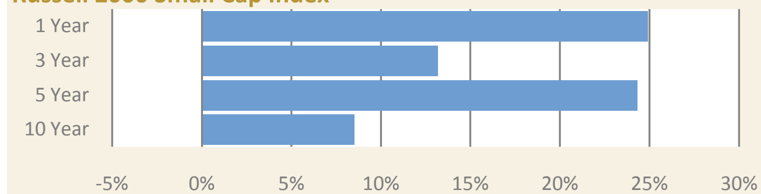


Source: Morningstar

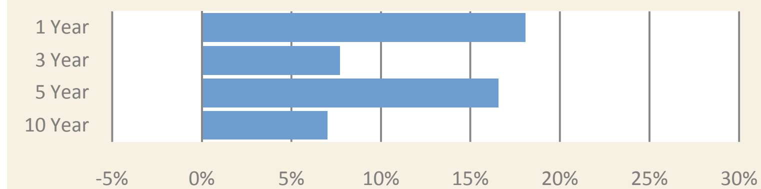
S&P 500 — **Average Annual Total Return**



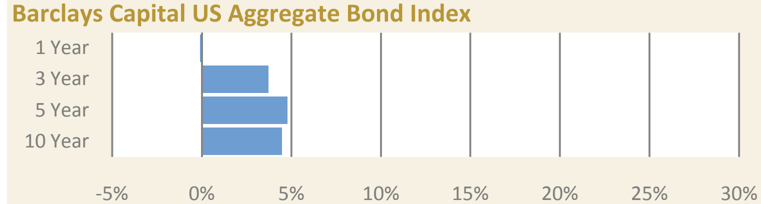
Russell 2000 Small Cap Index



MSCI EAFE International Index



Barclays Capital US Aggregate Bond Index



Barclays US Treasury Bill 1-3 Month