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Market Commentary – 1st Quarter 2014

Equity markets and fixed income markets finished slightly positive for the first quarter after coming under pressure in mid-January. Emerging markets were the exception once again, but we have seen that reverse in April. Week-to-week, emerging markets results are swinging quite a bit. Interesting to note, many of the asset classes that were a drag in 2013 were actually some of the better performers in the first quarter. Commodities, global real estate, and strategic allocation portfolios did well relative to traditional equity and bond holdings.

U.S. Equity

U.S. equity markets shrugged off several "worries" to turn in positive results for the first quarter. Whether it was harsh winter conditions in many parts of the country, concerns of broad market valuations, or continued uncertainty over economic strength, stocks experienced a very choppy, yet positive, quarter. Defensive equity positions, with their higher dividends, did slightly better than the broad market (Russell 1000 Index) and other large capitalization stocks.

International Equity

European equity markets continued a trend, begun in the second half of 2013, by keeping pace with U.S. equity results. Many of the economic forces holding back European stocks over the past few years seem to be subsiding. Broadly, international equities remain weighed down by emerging markets currency issues. The political crisis in the Ukraine also had a negative impact on international markets during the first quarter. International small capitalization stocks had a healthy quarter relative to most equities and outperformed large capitalization and emerging markets stocks. Valuations appear attractive on the international front as there continues to be plenty of headlines worrying investors.

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Commodities

This asset class experienced a nice reversal in the first quarter. It was the worst performing asset class in portfolios in 2013, but has bounced back rather quickly. Commodities fought off the ongoing malaise of emerging markets to turn in their strong results. Slow economic conditions around the world may cause choppiness in commodity returns over future periods. However, with inflation risk still a concern, commodities remain a valuable asset class within portfolios.

Fixed Income

The first quarter was a surprising one for fixed income after experiencing a negative return in 2013. The broad fixed income market (Barclays U.S. Aggregate Index) kept pace with equity market results as investors shifted to "safer" assets during the quarter. The slowly growing economy, as well as a belief that the Federal Reserve will keep interest rates low for an extended period, were key contributing factors behind fixed income results for the quarter. Emerging market debt and high yield kept pace with the broad fixed income market. Municipal bonds did particularly well as state revenues and reserves improved.