MURRAY
INVESTMENT MANAGEMENT

3rd Quarter 2013 Update

Economic Review

The U.S. economy continued to grow at a moderate pace during the 3rd quarter with GDP estimates around 2.5%. The housing market has been picking up, and the wealth effect from a rising stock market has helped drive consumer spending which has favorably impacted the economy.

Monthly job growth has bounced back from its low point in 2009 but has not been strong enough to move the unemployment rate from an elevated level (7.3% in August). Accelerating employment growth is a significant driver of consumer spending and is needed for better overall economic growth.

The Federal Reserve remained under intense scrutiny during the quarter as investors debated when the Fed will begin to taper (phase out) its bond purchase plan. Investors were pleasantly surprised in September when the Fed chose to push out its tapering plan until they are more confident in the strength of our economy. Short term rates remain at historically low levels.

Equity Market Performance

	QTD	YTD
S&P 500	5.24%	19.79%
MSCI EAFE (International index net return)	11.56%	16.14%

Domestic equity market performance was strong during the 3rd quarter (up 5.24%) and has advanced 19.79% year to date. The Materials and Industrial sectors were among the stronger performers during the quarter.

The broad International markets rallied sharply during the quarter (up 16.14%) and closed the performance gap with domestic markets year to date. Emerging international markets have generally underperformed during 2013.

Bond Market Performance

	QTD	YTD
Barclays US Aggregate Bond (Broad Bond Market)	0.57%	-1.89%
Barclays Municipal	-0.19%	-2.87%
Barclays US Treasury Long	-2.23%	-9.88%
Barclays US Corporate	0.82%	-2.62%
Barclays US Corporate High Yield	2.28%	3.73%

Fixed income markets were somewhat volatile during the quarter as the 10 year Treasury rate increased from 2.52% to near 3% before settling at 2.64% at the end of September. Long term Treasuries were among the weaker performers in the fixed income space.

Economic Outlook

The U.S. economy should continue to grow modestly with improvements in housing, employment and the wealth effect driving growth in the near term. Higher interest rates and reduced government spending will weigh on the economy, but economic numbers should improve over the remainder of the year.

The current government shutdown and debt ceiling debate could have a negative impact on growth if they extend longer than expected. But if both of these issues are resolved quickly, they should not have a significant impact on short term economic growth.

Market Outlook

With very strong equity market performance over the last several years, equity valuations do not appear extremely cheap but are also not overly stretched with the S&P 500 trading around 15 times trailing operating earnings. Investors should not, however, expect to see returns in the next several quarters like we have seen so far this year.

Corporate Earnings growth will be needed to drive markets higher, and with already lean cost structures, companies will need top line (revenue) growth to drive earnings. An accelerating economy would help contribute to these efforts.

Investors should expect increased volatility in the 4th quarter due to the U.S. budget/debt ceiling debate and the discussion of when and how the Fed will unwind its support. It's important to reiterate, however, that the reason the Fed is considering a less accommodative stance is that the economy is getting better, which is a good thing.

In the bond market, short term rates are expected to stay low, but longer term rates are likely headed higher which is generally not supportive of attractive bond returns. As such, equity markets are currently viewed as having better value than the fixed income space. For a fixed income allocation, shorter term securities and cash seem to be a reasonable approach in the current environment.

Murray Investment Management

If you would like help with establishing an investment plan or would like to schedule a portfolio review, please give us a call. Also, please pass along our name to anyone that may be in need of investment advice.

Source: bls.gov, Morningstar, cnbc.com, wsj.com, iShares and spindices.com
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 9/30/2013. Except as noted, index returns are Total Returns.

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