MURRAY
INVESTMENT MANAGEMENT

1st Quarter 2014 Update

Economic Review

The U.S. economy likely grew around 2% during the 1st quarter which is below its long term potential but consistent with what we have seen over the last several years. Harsh winter weather was a headwind to growth, but overall, the economic environment modestly improved.

During the quarter, the U.S. Federal Reserve continued to wind down its long term bond purchases and indicated that it could raise short term interest rates as early as 2015. This rate increase is earlier than many expected and somewhat rattled financial markets, but the Fed softened this stance in a later statement.

The employment picture did not change much during the quarter with the unemployment rate at 6.7% and 3 month average job growth of 178,000. Employment largely drives consumer spending, which is around 70% of GDP. Consequently, better employment growth is very important to the overall economy and is watched closely to determine expected Fed policy.

Equity Market Performance

	YTD
S&P 500	1.81%
MSCI EAFE (International index net return)	0.66%

U.S. equity markets were modestly higher during the quarter, and the S&P 500 passed its 5 year anniversary from its low in March 2009. Value outperformed Growth during the quarter, and the utilities sector was the best performing sector while consumer stocks lagged behind.

Domestic markets generally outperformed International markets during the quarter with Emerging markets among the weaker international performers.

Bond Market Performance

	YTD
BarCap US Aggregate Bond (Broad Bond Market)	1.84%
BarCap Municipal	3.32%
BarCap US Treasury Long	7.10%
BarCap US Corporate	2.94%
BarCap US Corporate High Yield	2.98%

Fixed income markets were generally higher as the 10 year Treasury fell from 3.04% at year end to 2.73%. The downward move was largely driven by a flight to quality in the face of increased equity market volatility.

Economic Outlook

The U.S. Economy should continue to grow at a modest pace during 2014. Tailwinds for the economy include low interest rates, positive wealth effect and an improving housing market. These should be balanced against slack in the labor market (unemployed and underemployed) and the potential for rising rates over the next few years. In addition, there is some concern that a slowdown in China will have a negative effect on global GDP. Taken all together, the general expectation is for an improving economy but continued below trend GDP growth.

Market Outlook

For the remainder of the year and into 2015, all eyes will be on the U.S. Federal reserve to determine when it will raise short term rates. We will likely be in an environment where strong economic data will be viewed as a negative for the stock market since it may lead the Fed to raise rates more quickly.

Whether investors focus on the reason for the rate change (a better economy) or the result of the rate change (increased borrowing costs) will impact the longer term direction of equity markets. When the Fed announces that it is raising short-term rates, investors should expect increased short term market volatility with the potential for a pullback.

Equity valuations don’t appear to be overly stretched, but they are not cheap either. If the market continues to trade somewhat sideways and earnings grow, valuations will improve with the potential for better market performance down the road. A grind-it-out type of market with modest returns would not be a surprising path for the rest of the year.

Opportunities remain limited in the fixed income space. The risk / reward profile for many fixed income securities is not very favorable. In other words, for the conservative portion of an investor’s portfolio, there are very few attractive options. This will change over time, but currently, holding a larger level of cash in the fixed income allocation seems to be a reasonable approach.

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, bea.gov, cnbc.com, wsj.com, and treasury.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 03/31/2014. Except as noted, index returns are Total Returns.

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