RBF Weekly Market Commentary
April 7, 2014

The Markets

The first quarter of 2014 offered up all the excitement and chills of a thriller. First, stock markets careened like runaway mining cars during January. Next, in her first press conference as new Federal Reserve Chairwoman, Janet Yellen implied the Fed might tighten monetary policy sooner than anyone expected which unsettled markets. Finally, Russia annexed Ukraine's Crimean Peninsula, incurring sanctions from other countries, and tipping its economy further toward recession. As in many thrillers, after some devastation (Russia's stock market lost billions as capital fled the country), the quarter ended on a more encouraging note with many of the world's stock markets in positive territory.

Last year was a very, very good year for stock markets in general, thanks to a brightening economic outlook in many parts of the world and the stimulative monetary policies implemented by many countries' central banks. By December 31, the Standard & Poor's (S&P) 500 Index had gained about 29 percent for the year, Japan's Nikkei was up more than 56 percent, and shares in Europe rose by about 16 percent.

January 2014 was breathtaking, too, but for an entirely different reason. Concerns about global economic growth, company earnings in the United States, and the resilience of emerging countries caused stock markets around the world to give back some of the previous year's gains. The S&P 500 lost about 3.6 percent, the MSCI World Index lost 3.8 percent, Europe's Stoxx Index fell 5.1 percent, and the MSCI Emerging Markets Index was down 6.6 percent.

Fortified by largely positive domestic economic data, U.S. stock markets recovered somewhat during February. Regardless, it looked like some major indices were going to finish March in negative territory until the Fed Chairwoman stepped to a microphone on March 31, and told a community development conference in Chicago:

> "I think this extraordinary commitment is still needed and will be for some time, and I believe that view is widely shared by my fellow policymakers at the Fed. In this context, recent steps by the Fed to reduce the rate of new securities purchases are not a lessening of this commitment, only a judgment that recent progress in the labor market means our aid for the recovery need not grow as quickly. Earlier this month, the Fed reiterated its overall commitment to maintain extraordinary support for the recovery for some time to come."

U.S. investors celebrated the idea the Fed would not begin to tighten monetary policy sooner than expected which pushed stocks higher. The S&P 500 finished the quarter with modest gains.

Outside the United States, markets delivered mixed performance during the first quarter. Portugal, Italy, Ireland, Greece, and Spain – labeled the PIIGS of Europe because of their economic woes following the financial crisis – delivered strong performance for the quarter.

The Shanghai Composite fell during the first quarter as investors worried China would not hit its growth targets for 2014. The State Council tried to assuage worries about the slowing pace of economic growth by pledging to move forward with approved infrastructure projects.

India was a top performer among emerging markets during the quarter. Stocks rallied as inflation eased, the rupee stabilized, and the country's current account deficit was brought under better control. Markets also were boosted when foreign investment increased in anticipation of a pro-business government being elected.

As the new quarter began, the European Central Bank flirted with the idea of quantitative easing. Its overtures pleased investors who began to invest in some of Europe's most indebted nations – countries that had been shunned during the debt crisis. The rally caused yields on Spain's five-year notes to fall below those of five-year U.S. Treasuries for the first time since 2007, and rates on Italy's five- and ten-year notes fell to the lowest levels they've reached since Bloomberg began tracking the data in 1993.

Data as of 4/4/14	**1-Week**	**Y-T-D**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Standard & Poor's 500 (Domestic Stocks)	0.4%	0.9%	19.6%	11.9%	17.4%	5.0%
10-year Treasury Note (Yield Only)	2.7	NA	1.8	3.4	2.9	4.2
Gold (per ounce)	0.2	8.0	-16.1	-3.3	8.3	12.0
DJ-UBS Commodity Index	0.0	7.2	0.8	-7.6	3.8	-1.1
DJ Equity All REIT TR Index	1.2	9.3	2.1	10.5	24.8	8.8

S&P 500, Gold, DJ-UBS Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

IS IT TIME TO BE HOPEFUL ABOUT GLOBAL ECONOMIC GROWTH? Certified Financial Analysts (CFAs) are more optimistic and confident that both local and global economies may grow this year, according to the 2014 Global Market Sentiment Survey (pg 5). Sixty-three percent of CFA Institute members think the world economy may expand in 2014. That's a big change from 2013 when only 40 percent were optimistic about global growth prospects (pg 8). Overall, the survey found CFAs think stock markets in the United States, China, Japan, and Germany may offer the best investment opportunities in 2014 (pg 11).

Optimism at the local level varies by region. The sharpest turnaround in perspective was among CFAs in Japan – just 11 percent thought their country could experience economic growth last year. This year, 73 percent are optimistic. There was a surge of positivity among CFAs in Europe, the Middle East, and Africa (EMEA), too. Fifty-six percent have positive expectations for local growth, up from 33 percent last year. In America, 62 percent of CFAs are optimistic about growth compared with 39 percent in 2013, and, in the Asia Pacific region, 69 percent expect to see things improve in 2014 as opposed to 32 percent the previous year (pgs 8-9).

Not everyone's outlook is rosy, however. Chinese CFAs have guarded expectations – just 45 percent expect to see their local economies grow. In Hong Kong, Brazil, and India, CFAs are actually less optimistic than they were last year (pgs 8-9).

Survey participants in both emerging and developed markets said one of the biggest risks to local economic growth is political instability. Participants in the United States, India, South Africa, and Brazil – countries that are gearing up for general elections – shared the concern. Other risks that could affect economic growth included the end of quantitative easing and the possibility of a financial bubble developing in local markets (pg 14).

Since the report was written in late 2013, CFAs' optimism may have been buffeted by the ups and downs of the year's first quarter, but it could prove out over the longer term.

Weekly Focus – Think About It

"Education is the most powerful weapon which you can use to change the world."

--*Nelson Mandela, Former President of South Africa*

Best regards,

Tony Kalinowski

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the London afternoon gold price fix as reported by the London Bullion Market Association.
* The DJ Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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* Consult your financial professional before making any investment decision.
* Stock investing involves risk including loss of principal.

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