TRUSTCORE®

Market Commentary
Second Quarter 2014

5314 Maryland Way, Suite 300, Brentwood, TN 37027-6219 www.trustcore.com (615) 377-1177 FAX (615) 371-1941

As of 6/30/14

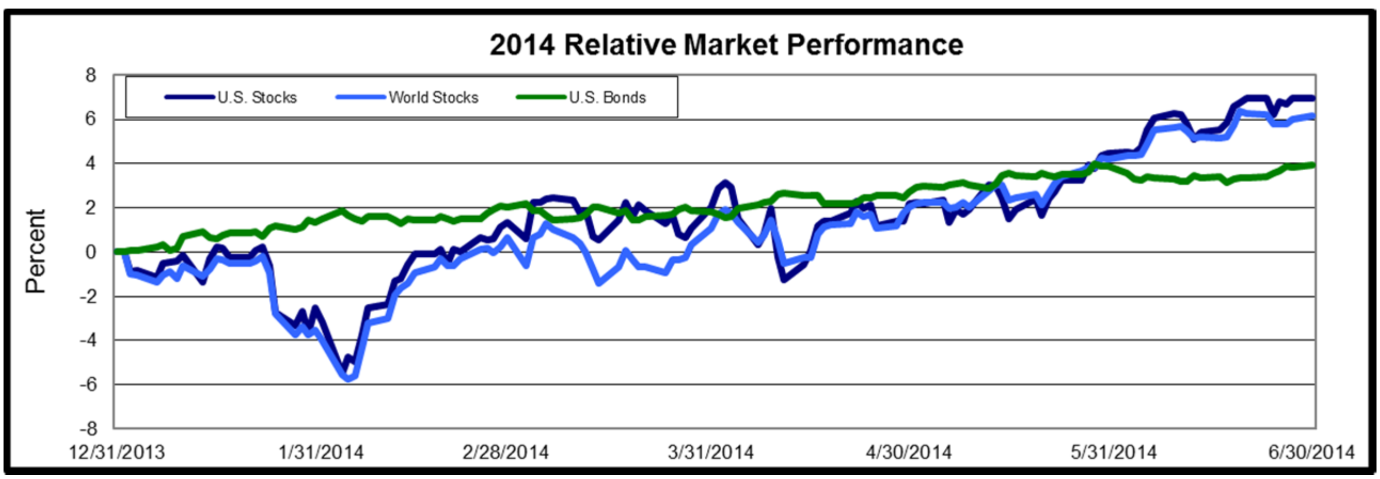
Market Performance	2013 3Q	2013 4Q	2014 1Q	2014 2Q	1 YR	3 YR	5 YR
Dow Jones Industrial Average (U.S. Large Stocks)	2.12	10.22	(0.15)	2.83	15.56	13.57	17.83
Standard & Poor's 500 (U.S. Large Stocks)	5.24	10.51	1.81	5.23	24.61	16.58	18.83
Wilshire 5000 (U.S. Stocks)	6.03	10.11	2.04	4.86	24.92	16.29	19.15
MSCI EAFE (Foreign Stocks)	11.56	5.71	0.66	4.09	23.57	8.10	11.77
MSCI EM (Emerging Market Stocks)	5.77	1.83	(0.43)	6.60	14.31	(0.39)	9.24
MSCI ACWI (World Stocks)	7.90	7.31	1.08	5.04	22.95	10.25	14.28
Barclays Capital U.S. Agg. Index (U.S. Bonds)	0.57	(0.14)	1.84	2.04	4.37	3.66	4.85

Inside This Issue

Quarterly Performance Review

Global equities rallied during the second quarter after a slow start to the year. U.S. equities reached record highs on broad improvement in underlying fundamentals while European stocks were supported by additional easing announced by the European Central Bank (ECB). Emerging markets surged after investors realized liquidity would remain, despite a higher future path in U.S. interest rate policy.

The yield on the benchmark 10-Year U.S. Treasury bond drifted lower during the quarter, ending the period at 2.53%. Renewed concerns over an end to easing by the U.S. Federal Reserve drove investors to the safety of U.S. Treasuries. Despite the risk-off stance, yields are expected to gradually move higher as stimulus efforts fade. Bond prices move inversely to yields.



Interest Rates

With tapering anticipated to end in the fall, forward guidance from many economists indicates the first rate hike may take place as early as the first half of 2015.

The Federal Open Market Committee (FOMC), the policymaking arm of the Federal Reserve Bank, maintained the federal funds target rate, the overnight rate at which depository institutions lend to each other, at 0.00% to 0.25%. Additionally, the monthly asset purchase program was reduced by $10 billion. With tapering anticipated to end in the fall, forward guidance from many economists indicates the first rate hike may take place as early as the first half of 2015. Absent a significant reduction in the unemployment rate coupled with wage inflation or a general increase in inflation expectations, rates on the 10-Year U.S. Treasury are expected to gradually normalize over the course of the next couple of years. The long-run equilibrium rate on the 10-Year U.S. Treasury is 3.75%, recently revised down from 4.00% as the long-run growth potential of the economy has declined.

Global Growth Prospects

Extreme weather and weaker than expected healthcare spending resulted in a significant hit to U.S. economic growth in the first quarter, causing it to contract at a rate of 2.9%.

Extreme weather and weaker than expected healthcare spending resulted in a significant hit to U.S. economic growth in the first quarter, causing it to contract at a rate of 2.9%. Most economists underestimated how significant the impact would be; however, second quarter growth is expected to rebound to 3.0% or more as consumption and residential real estate improve. Full-year 2014 expectations have been revised down to 2.0%, close to the average annual growth rate of the current recovery.

Decisive actions by the ECB have signaled that they are serious about addressing the weakness in growth and inflation. Measures announced at their June meeting, including negative deposit rates and consideration for a U.S. Fed-like asset purchase program, are aimed at holding down long-term interest rates and stimulating borrowing, lending, investing and hiring. The hope is these efforts will promote a stronger euro area recovery and avoid deflation. Economic growth near 1.0% is projected for calendar year 2014.

Economic growth across broad emerging market countries is set to accelerate over the course of the year. The strongest data has come out of Asia where indications are that Chinese growth may have bottomed as additional easing measures were introduced. An improving forecast for China should bode well for the Asian region overall. However, not all emerging market countries will be treated equal. Those countries with more balanced economies should hold up to a rising U.S. interest rate environment better than those with structural imbalances. The International Monetary Fund projects 4.9% growth for the emerging markets in 2014.

Corporate Earnings Growth

The S&P 500 is currently trading at 17.5 times trailing earnings and 15.6 times future earnings. While valuations are not expensive, expectations for significant multiple expansion should be moderated. Though profit margins have slowed, corporations maintain strong balance sheets that should continue to support earnings going forward. As the economy has improved, we have seen more companies leveraging their balance sheets through mergers and acquisitions. These activities should support more capital spending as opportunities become harder to come by. Current estimates are for full year 2014 earnings to be up 11.4% over calendar year 2013.

Valuations outside the U.S. remain broadly undervalued relative to global equities. Developed equities ex-U.S. currently trade at 14.2 times future earnings, slightly above their 10-year average, but still at a discount relative to the world. Emerging markets largely remain undervalued relative to their 10-year average and to global equities with valuations at 10.9 times future earnings.

As the economy has improved, we have seen more companies leveraging their balance sheets through mergers and acquisitions. These activities should support more capital spending as opportunities become harder to come by.

Summary

With global economic fundamentals improving, growth is set to follow; however, markets remain policy driven. While the U.S. Fed is still in a position of easing, it is moving slightly less so. With the Fed's first interest rate hike nearing, bond and equity volatility may increase as investors digest future moves. Meanwhile, the central banks of Europe and Japan remained focused on further easing efforts. The focus going forward will be on the path, pace and perceived effectiveness of current and future policy actions across the globe.

The focus going forward will be on the path, pace and perceived effectiveness of current and future policy actions across the globe.

In volatile markets investors should remain focused on their long-term objectives. Asset allocation strategies developed for a portfolio provide a roadmap to follow in times of duress. Steps may need to be taken to ensure capital preservation, but must be weighed against their potential impact on long-term performance. Implementing a disciplined, strategic approach with portfolio allocation across varying asset classes is an important element of a successful investment strategy. That's why at TrustCore, we believe in creating a customized, well-diversified portfolio to help you meet your long-term financial goals.