TRUSTCORE®

Market Commentary
Third Quarter 2014

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As of 9/30/14

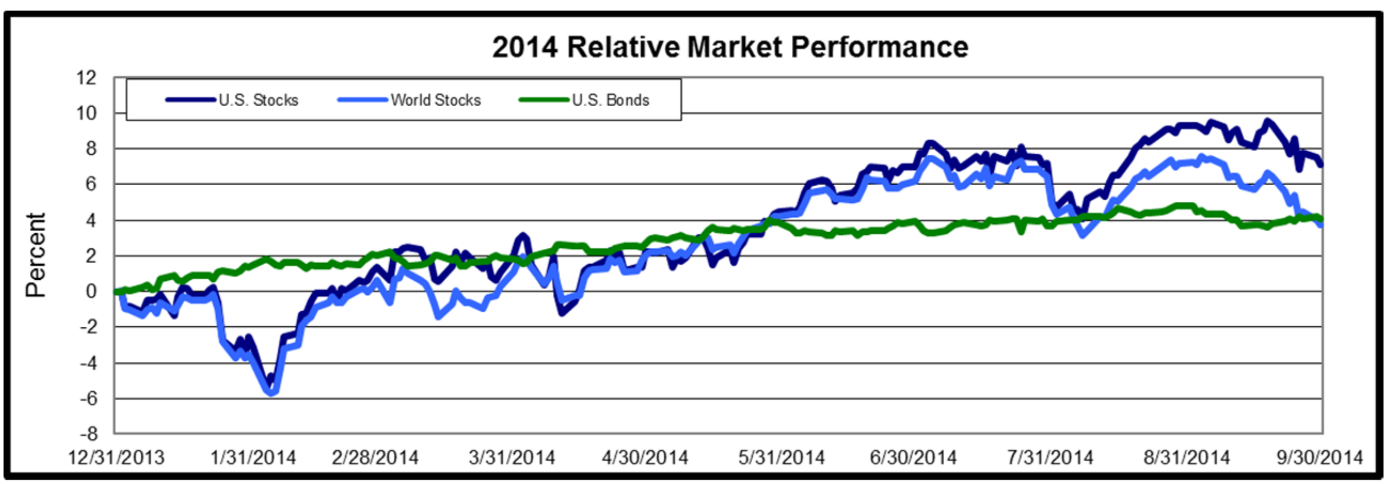
	2014			2013			
Market Performance	**3Q**	**2Q**	**1Q**	**4Q**	**1 YR**	**3 YR**	**5 YR**
Dow Jones Industrial Average (U.S. Large Stocks)	1.87	2.83	(0.15)	10.22	15.29	19.02	14.85
Standard & Poor's 500 (U.S. Large Stocks)	1.13	5.23	1.81	10.51	19.73	22.99	15.70
Wilshire 5000 (U.S. Stocks)	0.08	4.86	2.04	10.11	17.91	22.82	15.66
MSCI EAFE (Foreign Stocks)	(5.88)	4.09	0.66	5.71	4.25	13.65	6.56
MSCI EM (Emerging Market Stocks)	(3.49)	6.60	(0.43)	1.83	4.30	7.19	4.42
MSCI ACWI (World Stocks)	(2.30)	5.04	1.08	7.31	11.32	16.61	10.07
Barclays Capital U.S. Agg. Index (U.S. Bonds)	0.17	2.04	1.84	(0.14)	3.96	2.43	4.12

Inside This Issue

Quarterly Performance Review

Equities outside the U.S. reversed course during the third quarter. Economic and policy divergence alongside an uncertain geopolitical environment made investors risk-averse. While the U.S. was able to generate a positive return, euro-area and emerging market stocks suffered as their currencies weakened relative to the U.S. dollar. All markets experienced an increase in volatility.

The yield on the benchmark 10-Year U.S. Treasury bond, despite some volatility in interest rates, ended the quarter near where it started. While yields in the U.S. are anticipated to move higher as economic and monetary policy normalizes, rates in Europe and Japan should remain low for an extended period of time. Bond prices move inversely to yields.



Interest Rates

Sustained growth in the U.S., which was higher than that of the euro-area and Japan, is creating a divergence in monetary policy among the major central banks. While the U.S. Federal Reserve (Fed) is set to wind down monetary easing, the European Central Bank (ECB) along with the Bank of Japan (BoJ), are aiming to expand their policy initiatives. Though a reduction in easing by the Fed will withdraw liquidity from the system, the pace of stimulus efforts by the ECB and BoJ should offset what is lost, most likely maintaining global liquidity in the markets.

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As U.S. monetary policy changes, Treasury rates should remain low for an extended period of time. Depending on the rate of change in unemployment and inflation, the first rate hike by the Fed is not anticipated until 2015. The 10-Year U.S. Treasury is expected to remain near 3.00% or below until there is action by the Fed. With easing also continuing at the ECB and BoJ, their 10-Year rates are anticipated to remain near current levels of 0.96% and 0.52%, respectively.

Global Growth Prospects

Prospects for the U.S. have increased, and there is a growing divergence in economic and policy expectations among the developed world. Reflecting stronger business investment and consumer spending, economic growth in the U.S. was 4.6% in the second quarter of 2014. Expectations are for growth near 3.0% over the course of the third and fourth quarter respectively. Sustaining this rate of growth should allow unemployment in the U.S. to continue to fall. This compares to the euro-area growth expectations of 0.8% for 2014 and an inflation outlook that remains weak. Meanwhile, Japan is expected to grow near 0.9% as it too grapples with weak growth and a low inflationary environment. While the ranges of expectations are varied, the disparity across emerging markets is just as large, if not greater.

Reflecting stronger business investment and consumer spending, economic growth in the U.S. was 4.6% in the second quarter of 2014.

China maintains not only one of the largest economies, but also one of the strongest from a growth perspective; however, growth at the rate China has experienced over the last decade creates issues. China is attempting to negotiate a lower, but more sustainable rate of growth as they transition their economy from one dominated by manufacturing and state-owned-enterprises to mass consumerism and private ownership. In the near-term, that rate of growth is near 7.0%, which stands in stark contrast to that of Russia. As a resource rich country, Russia has struggled as the demand for natural resources has declined amid a slowing global growth environment. Additionally, sanctions enacted against Russia after its show of force in Ukraine, will hinder Russian growth prospects.

Corporate Earnings Growth

The S&P 500 is currently trading at 15.3 times future earnings, slightly higher than its historical average. Though estimates are for 2014 earnings to be up 11.0% over calendar year 2013, multiples may not drift too much higher. Outside the U.S., valuations trade at a relative discount.

European equities trade at 13.9 times future earnings while emerging markets are 10.8. The hope in Europe is that fundamentals will improve as the ECB is expected to expand its efforts. After the recession, earnings across Europe never fully recovered and are still 20.0% below their peak. This compares to the S&P 500 which is 27.0% above peak earnings. If Europe can close this gap, it should be supportive to equities.

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Summary

The quarter was dominated by geopolitical concerns and the growing divergence in growth and policy around the world. With the Fed nearing an environment where it may consider raising rates, the central banks of Europe and Japan are providing stimulus to spur economic growth and inflation. This uncertainty has created a risk-off environment in the short-term that has impacted equities. Interest rate and currency volatility are also likely to persist in this type of environment. As the Fed begins its policy transition, the process is expected to be measured and well communicated with the public. The Fed is trying to ease back into a normal interest rate environment with as little volatility as possible.

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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.