TRUSTCORE®

Market Commentary
First Quarter 2014

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As of 3/31/14

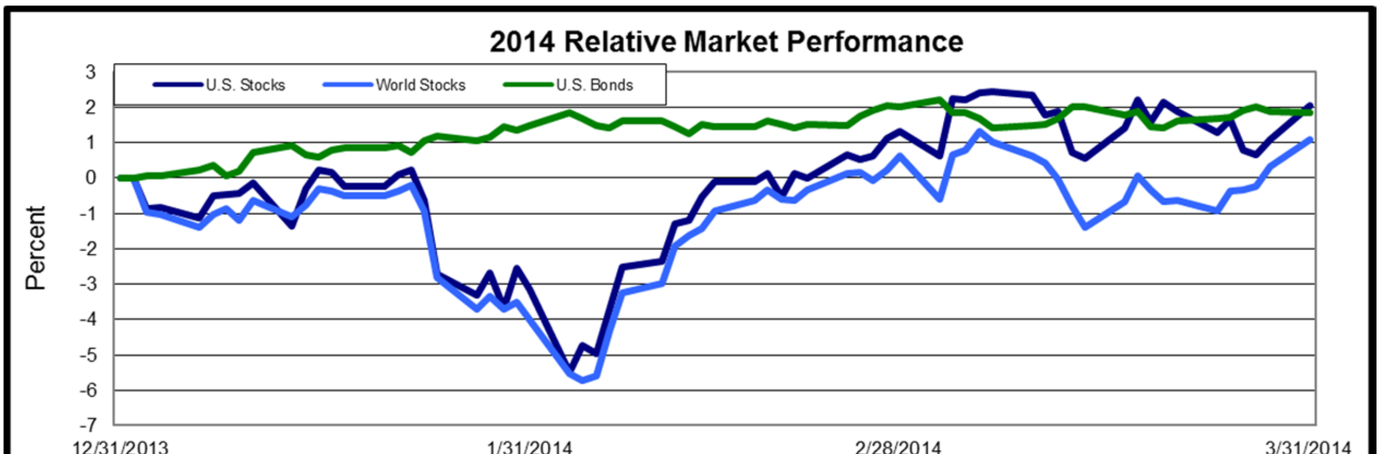
Market Performance	2013 2Q	2013 3Q	2013 4Q	2014 1Q	1 YR	3 YR	5 YR
Dow Jones Industrial Average (U.S. Large Stocks)	2.92	2.12	10.22	(0.15)	15.66	13.05	19.85
Standard & Poor's 500 (U.S. Large Stocks)	2.91	5.24	10.51	1.81	21.86	14.66	21.16
Wilshire 5000 (U.S. Stocks)	2.77	6.03	10.11	2.04	22.42	14.43	21.74
MSCI EAFE (Foreign Stocks)	(0.98)	11.56	5.71	0.66	17.56	7.21	16.02
MSCI EM (Emerging Market Stocks)	(8.08)	5.77	1.83	(0.43)	(1.43)	(2.86)	14.48
MSCI ACWI (World Stocks)	(0.42)	7.90	7.31	1.08	16.55	8.55	17.80
Barclays Capital U.S. Agg. Index (U.S. Bonds)	(2.32)	0.57	(0.14)	1.84	(0.10)	3.75	4.80

Inside This Issue

Quarterly Performance Review

Despite a weak start to the year, global equities broadly finished the quarter on a positive note. Expectations for growth in the U.S. and Europe continued to trend higher as fundamentals have improved. Emerging markets initially struggled as investors sold assets on worries that U.S. Federal Reserve policy normalization would have a negative impact. Once growth prospects began to stabilize, investor sentiment tempered.

The yield on the benchmark 10-Year U.S. Treasury bond drifted 10.20% lower during the quarter, ending the year at 2.73%. Given the improvements in the economy and the overall trend towards policy normalization, yields are still expected to move gradually higher over the course of the year. Bond prices move inversely to yields.



Interest Rates

As the Federal Reserve Bank shifted to a new Chair, Janet Yellen, so too did its forward guidance. For some time, the indicator for a pending rate increase has been the unemployment rate moving to or below 6.5%. At its present level of 6.7%, unemployment is nearing that key threshold, yet it is clear that there is still enough slack in the economy to warrant a delay in raising rates despite nearing their self-imposed target. Going forward, expect a more balanced approach of consideration that will factor in both quantitative and qualitative features.

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Outside the change in forward guidance, 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 asset purchase program was reduced by $10 billion. At its current pace of tapering, the program should come to a close by year-end. Many forecasters expect an increase in interest rates six months following the end of tapering thereby pushing rates higher in 2015 than originally thought.

Global Growth Prospects

Prospects for economic growth in the U.S. continue to increase, supported by a reduction in fiscal drag. While the harsh winter may have provided a small setback, the weaker tone of some economic data is expected to reverse. Current growth estimates show U.S. economic growth trending near 2.5% for 2014.

Within Europe, growth continues to improve, but deflationary concerns remain a threat. With a projected growth rate of 1.0% in 2014, the European Central Bank (ECB) is tracking trend inflation closely. The ECB is trying to avoid a Japan-like deflationary environment where growth stagnates. A quantitative easing program, not unlike the U.S. Fed’s asset purchase program, would not be out of the question. The ECB will strive to keep monetary policy as accommodative as they need to sustain the current rate of recovery.

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Economic growth across broad emerging market countries has largely remained flat relative to levels a year ago. Expectations for growth have slowed as investors worry about the impact policy normalization by the U.S. Federal Reserve may have on capital in emerging markets. Furthermore, the Russian annexation of Crimea adds a level of concern for investor capital. As the quarter progressed, investor sentiment stabilized as the long-term growth trajectory for broad emerging markets remains favorable. The International Monetary Fund projects 5.1% growth in 2014, far outpacing those in the developed world.

Corporate Earnings Growth

The S&P 500 is currently trading at 17.2 times trailing earnings and 15.6 times future earnings. Standard and Poor's projections for the first quarter of 2014 show a slight decline over the prior quarter. Many companies cited the record cold weather as a reason for their negative earnings revisions. Regardless, with earnings at historically high levels, pressure to sustain could leave the market vulnerable to a correction. Current estimates are for full year 2014 earnings to be up 11.9% over calendar year 2013, but further negative revisions are possible.

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Valuations outside the U.S. look relatively attractive. While European equities are trading near historical valuations of 13.0 times future earnings, the region is only beginning its recovery. Though difficult conditions remain, many companies have become more optimistic in their comments regarding Europe. Further, emerging markets remain undervalued and trade at 9.9 times future earnings. Weaker growth in some areas on top of geo-political disruptions have depressed prices in the near-term; however, forward-looking growth rates, which remain well above those anticipated in the developed economies, should support growth over the long-term in the emerging markets.

Summary

As we enter 2014, the global economy is in better shape. While there are pockets of stress, accommodative policies from the major global central banks should keep growth trending in the right direction. The International Monetary Fund projects global growth to be 3.7% in 2014. In the U.S., the market seems to hang on every word the Fed does or does not say, so we expect volatility to continue to flare up around this ongoing decision. We expect fiscal policy to remain stable as the November mid-term elections near.

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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.