RB

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AND THAT'S THE WEEK THAT WAS…
For the Quarter Ended June 30, 2014

Market Matters…

Market/Index	Year Close (2013)	Qtr Close (03/31/14)	Qtr Close (06/30/14)	Qtr Change	YTD Change
Dow Jones Industrial	16,576.66	16,457.66	**16,826.60**	**2.24%**	**1.51%**
NASDAQ	4,176.59	4,198.99	**4,408.18**	**4.98%**	**5.54%**
S&P 500	1,848.36	1,872.34	**1,960.23**	**4.69%**	**6.05%**
Russell 2000	1,163.64	1,173.04	**1,192.96**	**1.70%**	**2.52%**
Global Dow	2,483.62	2,504.05	**2607.35**	**4.13%**	**4.98%**
Fed Funds	0.25%	0.25%	**0.25%**	**0 bps**	**0 bps**
10 yr Treasury (Yield)	3.04%	2.72%	**2.52%**	**-20 bps**	**-52 bps**

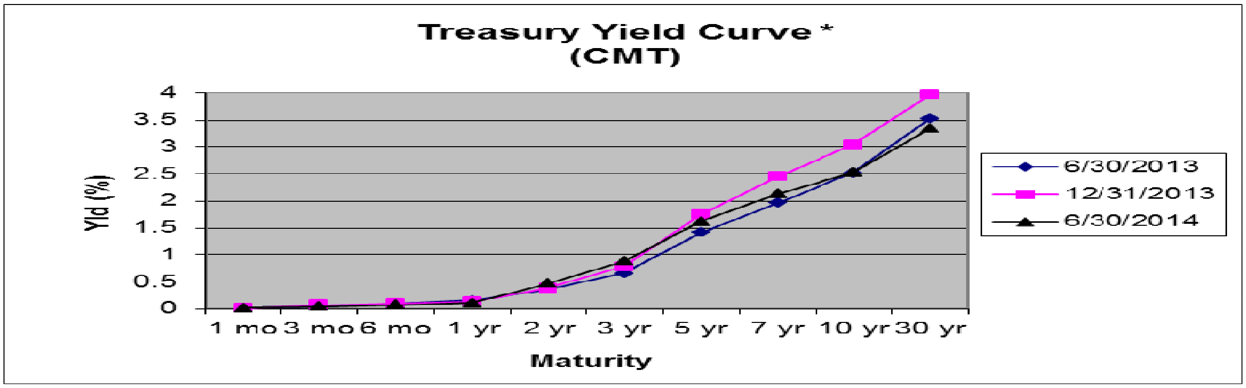
Six months down. After a dismal January threatened the impressive 2013 gains, the stock market has been back on a roll and the second quarter represented a return to its record-setting days. The Dow Jones posted 11 new highs on its way toward 17k (close but no cigar) and the S&P 500 rose for the sixth straight quarter with 16 record closes of its own. Even the Nasdaq pushed to levels not seen in 14 years. Along the way, the economy (seemingly) moved beyond the dreaded winter months and the Fed continued its bond buying reductions as the next rate hike looms closer. Geopolitical threats in Ukraine/Russia and the Middle East pushed oil prices above $107/barrel though Iraq's production has yet to be impacted. Investors overlooked lower earnings as reflective of poor weather and confident board rooms played "let's make a deal" as merger volume jumped 72% from the same time last year.

Healthcare topped the deal-making sector as **Valeant Pharmaceuticals**, **Novartis**, **Merck,** and medical device company **Medtronic** were all involved in sizable transactions. **Apple** seemed to take activist Carl Icahn's advice and upped its share buyback program by $30 billion. The tech darling also issued $12 billion in new debt and other biggies like **Caterpillar** also took advantage of the low rates. While earnings are expected to improve in the quarters to come, some "too-big-to-failers" (i.e. **Citigroup**, **Goldman Sachs**, **JP Morgan Chase**) warned that trading revenues will negatively affect future results. **GM** overcame the never-ending recall headlines by boasting a double-digit sales increase in May and many retailers put the winter months in the rearview mirror as same-store sales rebounded as well.

While the Fed winds down its stimulus, its counterparts in Europe and Japan have become more aggressive and investors welcomed the moves by continuing to pour moneys into the markets. Investor confidence reigns as volatility has been low for a change; the S&P 500 did not fluctuate by 1% (up or down) in 51 consecutive sessions to end the quarter. Big Oil and other related industries were among the top beneficiaries as pipelines, oil equipment and services, and exploration and production companies topped the list of best performers. Investors also resumed their appetites for emerging market stocks as April and May inflows into related mutual fund and ETFs represented the best two-month showing since early 2013. Previously down-and-out markets like India and Brazil incurred nice resurgences and even countries in the midst of global turmoil like Russia and Thailand fared quite well in the quarter. In Europe, Spain posted decent stock market gains, while Portugal and Greece were among the top laggards.

While Fed watchers are counting the days until the next tightening move, Yellen and friends have implied that late-2015 remains an effective target timeframe. As such, some investors continue to seek the safe-haven of bonds and the yield on the benchmark 10-years has pushed comfortably below the 3% level of the start of the year. The more risk-taking of the fixed income investors have flocked to "junk" (below investment grade) to add yield to the portfolio. *Six months to go.*

Economically Speaking…



After bitching and moaning about the cold weather and all the repercussions, economists finally believe the end has passed (and the best is yet to come). Though GDP actually declined in the first quarter, a recent **Wall Street Journal** survey predicts 3.5% growth in the second and the recent releases seem to indicate such resurgence is a real possibility. The ISM manufacturing index rose for the fourth straight month and is safely in expansion mode, while industrial production is riding a three month winning streak of its own. The unemployment rate fell it its lowest level since September 2008 and over 200k new nonfarm payroll jobs have been added each month since January.

Housing is undergoing a rebound of its own as new home sales jumped to six year highs and residential building permits, a strong predictor of future activity, climbed at their fastest pace since late 2013. Though retail sales only rose slightly in its latest release, the Conference Board's confidence index exhibited its best showing since January 2008, giving further confirmation that the consumer has emerged from hibernation. Inflation may once again be on the radar screen as consumer prices rose at their fastest pace in a year and some analysts believe that wage pressures will follow suit as the labor market continues to progress. (And somewhere the Fed is watching.)

Fed policymakers voted again to reduce the bond buying program by another $10 billion to $35 billion and Chair Yellen has shared "many good reasons" to be optimistic: expanding labor market, reduction in household debt, improving global economy. The Beige Book showed that all 12 regions of the country are growing at a "modest to moderate" pace, though most watchers still look at late 2015 for the next funds hike. Overseas, however, the central bankers are playing a different game. The European Central Bank cuts short-term rates last month and even dropped the overnight bank deposit rate into negative territory, giving institutions incentive to lend and invest. ECB Policymakers has indicated that more "unconventional" measure may be in the works and analysts are predicting a US-style bond purchase stimulus.

While the purchasing managers index in the Eurozone reveals expansion, it slipped a tad in May and France's manufacturing sector contracted for the second straight month. Additionally, the lowest level of inflation in four years has ECB watchers embracing the central banker moves (and looking for more). China's HSBC purchasing managers index rose into expansion territory to its highest level of the year and stronger industrial production and retail sales give reason for economic optimism. Japan's GDP rose at an annual pace of 5.9% in the first quarter on solid consumer activity in advance of its national sales tax hike.

On the Horizon*…*The year is halfway over and, after a rocky start, stocks continue their record-setting ways. The domestic economy remains solid and global central banks are taking actions to aid theirs. Second quarter earnings should go a long way to confirm that the winter issues are in the past. All seems well in the markets, but the geopolitical threats are always worth watching.