Market Review and Outlook—June 6, 2014

Little is happening. Tensions are heightened but not critical in Ukraine. Globally there are no recent hot spots. There is no significant good or bad economic news. The US has been creating jobs, but with the harsh winter, the 1st quarter brought a slight decline in the economy. Fortunately, the decline was largely the result of a technicality (manufacturers letting their inventories decline), which should help the current quarter rebound nicely. When the global and economic backdrops are quiet, markets are driven by investors.

In the past three months, the primary investor news is that investors have recently been preferring safety. When you are an investor seeking safety, you look for safer investments (bonds) and safer stocks (larger, US ones). Despite the very broadly accepted view that interest rates would rise this year, investors seeking safety and buying bonds in the past three months have driven interest rates down. This has led to solid results from bonds, with notably good results have come from the long-term bonds. Stocks also rose, with the US stock market setting several all-time records. Despite the lack of signs of worrisome inflation, inflation-hedges such as real estate and energy funds did quite well. While generally the past three months saw a 'flight to quality,' there were exceptions. Junk bonds, both corporate and municipal, did very well, with municipal high yield bond funds returning almost 9%.

While there is always a possibility of an unforeseen global crisis, there are no clear signs of danger ahead, economically. The US economic recovery is continuing, and a pretty smooth manner. Auto and home sales are strengthening, which makes year-to-year comparisons look good, and this should continue. The economic recovery has been so gradual that there are no signs of the economy overheating. This is the reason that we are very comfortable with a normal (actually with an above average) level of stocks for investors at this time.

Since both stocks and bonds advanced over the past three months, most investors will face no need of broad rebalancing. As is almost always the case, there were pockets of weak and strong results, and so this month there are opportunities to improve portfolios through some fine-tuning rebalancing. We will be restocking smaller stocks, due to this being one of the few areas to see recent losses. We will be paring back on the leading areas—real estate and municipal high yield bonds. We are also introducing two new subclasses and redirecting some existing dollars into them: frontier emerging market stock funds, and emerging market bond funds.

Category	3 Months	12 Months	3-Yr Avg	5-Yr Avg	10-Yr Avg
Fidelity Cash Reserves	+0.00%	+0.01%	+0.01%	+0.05%	+1.69%
Intermediate Term Bond	+1.81%	+2.75%	+3.84%	+6.21%	+4.80%
Intermediate Muni Bond	+1.91%	+2.26%	+4.29%	+4.80%	+3.96%
Large-Cap Stock	+3.20%	+19.22%	+13.39%	+16.95%	+7.31%
Mid-Cap Stock	+0.93%	+19.11%	+12.15%	+18.93%	+8.70%
Small-Cap Stock	-1.43%	+17.71%	+11.89%	+19.05%	+8.72%
Foreign Large-Cap Stock	+1.88%	+15.78%	+5.64%	+10.68%	+6.93%
Real Estate	+6.45%	+9.55%	+9.34%	+21.64%	+9.14%
Natural Resources	+4.25%	+15.15%	+0.07%	+9.59%	+10.47%
Science/Technology	-2.63%	+25.04%	+10.10%	+17.53%	+8.31%
Moderate Allocation	+2.27%	+12.25%	+8.57%	+12.33%	+6.45%

The data in this table comes from Morningstar and is as of May 31, 2014.
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