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Investment Summary
3rd Quarter 2013

The U.S. equity market continued its upward trend in the third quarter, supported by the Federal Reserve's $80 billion monthly quantitative easing program (QE3), corporate cost controls, and continued housing strength. However, the overall fiscal situation in the country is less bullish. GDP growth has been tracking at a lackluster pace of about 2%, despite the stimulus provided by QE3. This continued printing of money by the Fed has pushed the national debt over $17 trillion; to compound problems, ideological gridlock in Congress makes chances of a near-term debt resolution slim. Although the Fed has alluded to "tapering" of the QE3 program as the economic recovery gains momentum, the recent government shutdown probably delays tapering into the new year.

Despite the strong returns in stock benchmarks, up in the range of 150% over the last four years, U.S. equity holdings as a percentage of household assets remain at generational lows. Following the downturn in 2009, investors moved significant assets to bonds in the search for safety. Now, with the Congressional Budget Office projecting 10 year Treasury yields doubling to 5.2% in the next five years (which would lead to a decline in bond prices), the possibility of strong inflows back to equities is growing.

Within equities, foreign stocks appear more attractive than their U.S. counterparts on the basis of fundamentals and valuation. In developed overseas countries, investors are seeing early signs of economic improvement. For example, the European Union region reported its first quarter of growth since 2011, while Japan has remained committed to a strong stimulus program that is helping local business. Some emerging markets are also gaining momentum; for instance, China and other export economies have recently reported accelerating manufacturing growth.