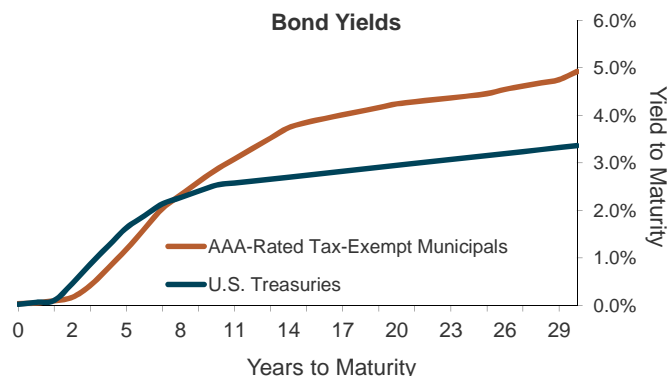
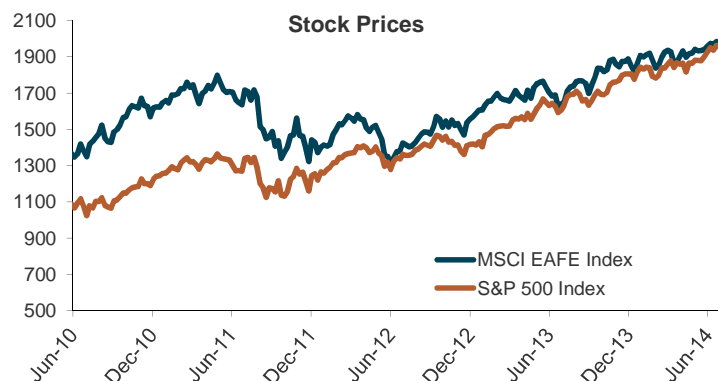


# QUARTERLY INVESTMENT UPDATE

## WORTH KNOWING™

For the Quarter Ending June 30, 2014



### Stock Market Commentary

Global equity markets gained higher ground in the second quarter with volatility falling to levels not seen since 2007. The S&P 500 delivered a 5.2% return for the quarter and has now reached 22 fresh highs year-to-date. While all sectors of the market had positive returns during the quarter, the Energy sector rallied most, up 12.1% as sectarian conflict in Iraq and concern over the world's supply pushed oil prices higher. The Utilities sector, up 7.8% for the quarter, has been the top performer year-to-date through June with a gain of 18.7%. Midcap and Small cap stocks rose 4.3% & 2.0%, respectively. Developed international equities grew 4.3% during the quarter as the European Central Bank's Mario Draghi introduced stimulus measures to boost the sluggish economy. This accommodation along with improving economic prospects in China produced strong results for Emerging Markets equities, up 6.6% for the quarter. The Real Estate sector continued its climb upward, gaining 7.2% as measured by the DJ Wilshire REIT Index. Moving into the second half, the S&P 500 reached another new high. While this positive trend could continue if earnings growth proves sustainable, volatility could pick up as the market exceeds fair value.

### STOCK MARKETS

	3 Months	1 Year	3 Years*
<b>Large Stocks</b>			
S&P 500	5.2%	24.6%	16.6%
Russell 1000	5.1%	25.4%	16.6%
Russell 1000 Growth	5.1%	26.9%	16.2%
Russell 1000 Value	5.1%	23.8%	16.9%
<b>Medium and Small Stocks</b>			
S&P 400 Midcap	4.3%	25.2%	15.2%
Russell 2000	2.0%	23.6%	14.6%
Russell 2000 Growth	1.7%	24.7%	14.5%
Russell 2000 Value	2.4%	22.5%	14.6%
<b>International Stocks</b>			
MSCI Developed (EAFE)	4.3%	24.4%	8.8%
MSCI Emerging Markets	6.6%	14.3%	-0.4%
<b>Real Estate</b>			
DJ Wilshire REIT Index	7.2%	13.3%	11.4%

### Bond Market Commentary

Bond prices continued to move higher in the second quarter. Long-Term U.S. Treasuries (bonds with maturities of 20 years or more) rose over 3% during the quarter and are up over 12% year-to-date. The more diversified Barclays Aggregate Index gained 2% during the quarter for a year-to-date return of 4.4%. Intermediate-term municipal bonds gained 1.3% for the quarter. The rally in treasury prices and the decline in interest rates are due in part to subdued economic data and conflicts in Syria, Iraq, and Eastern Europe as well as declining supply. Overseas buyers, led by China, are buying U.S. debt to gather dollars and help weaken currencies to encourage exports. Also, the 10-year U.S. treasury yield of 2.53% compares favorably to yields in other developed markets. Ten-year government bonds issued in Germany yielded only 1.31%, and comparable bonds issued by the Japanese government trade at a yield of only 0.6%. Meanwhile, the supply of U.S. government debt is shrinking due to a narrowing budget deficit.

### BOND MARKETS

	3 Months	1 Year	3 Years*
<b>Taxable Bonds</b>			
Aggregate	2.0%	4.4%	3.7%
Intermediate Govt./Credit	1.2%	2.9%	5.8%
U.S. Government	1.3%	2.1%	2.9%
U.S. Credit	2.7%	7.4%	5.9%
High-Yield Bonds	2.4%	11.7%	9.5%
<b>Tax-Free Bonds</b>			
3-Year Municipal	0.7%	2.4%	1.8%
5-Year Municipal	1.3%	4.0%	3.2%
10-Year Municipal	2.5%	6.3%	5.5%

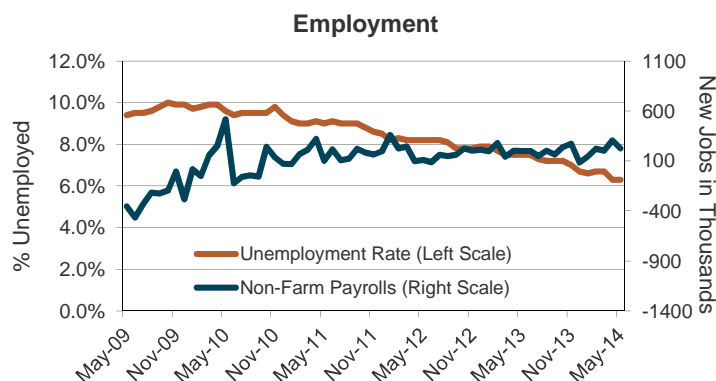
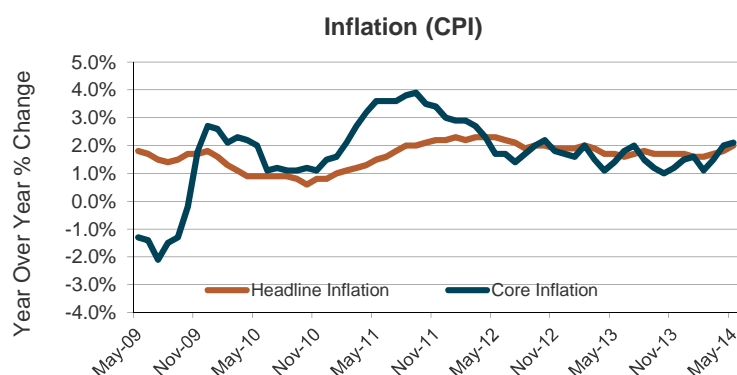
Sources: Baseline, Bloomberg, Municipal Market Data, Vanguard, Lipper.  
The bond indexes above are produced by Barclays Capital.  
Returns include the reinvestment of interest and dividends.  
\*Returns are annualized.

To receive this Quarterly Investment Update by email, request our composite performance history, or request descriptions of the indexes and other information included in this report, please contact us at [investmentnewsletters@perkinscoie.com](mailto:investmentnewsletters@perkinscoie.com).

# QUARTERLY INVESTMENT UPDATE

## WORTH KNOWING™

For the Quarter Ending June 30, 2014



## Economic Commentary

Two recent major economic data releases offer a conflicting view of the economy. On the positive side, the non-farm payroll report for May showed a gain of 217,000 jobs, ahead of most expectations and indicative of a growing economy. On the other hand, the government's final revision of first quarter GDP came in at a disappointing -2.9%. Weather disruptions and weak demand from foreign countries resulted in a significant contraction in the U.S. economy. This was the biggest GDP decline in five years, and the largest drop recorded since the end of World War II outside of a recession. Most economists are considering the first quarter to be a confluence of several negative, one-time occurrences and believe that second quarter growth could offset most of the decline.

After the most recent Federal Reserve meeting, the Fed announced a drop in their forecast for U.S. GDP growth to between 2.1% and 2.3% from their previous estimate of 2.9%. However, they will continue to slowly reduce some of the stimulus provided since the Financial Crisis, alluding to strength in housing, employment and consumer confidence.

## Key Economic Releases

EMPLOYMENT	As of	Expected	Actual	Prior
Unit Labor Costs (1Q)	JUN	5.1%	5.7%	4.2%
Unemployment Rate	JUN	6.30%	6.10%	6.30%
Average Hourly Earnings (YoY)	JUN	1.9%	2.0%	2.1%
Change in Manufact. Payrolls	JUN	10K	16K	11K
Change in Non-Farm Payrolls	JUN	218K	288K	192K

INFLATION (year over year)	As of	Expected	Actual	Prior
Consumer Price Index	MAY	2.0%	2.1%	2.0%
CPI Ex Food & Energy	MAY	1.9%	2.0%	1.8%
Producer Price Index	MAY	2.4%	2.0%	2.1%
PPI Ex Food & Energy	MAY	2.2%	2.0%	1.9%

HOME PRICES (year over year)	As of	Expected	Actual	Prior
S&P/Case Shiller Top 20 Mkts.	APR	11.5%	10.8%	12.4%

MANUFACTURING ACTIVITY	As of	Expected	Actual	Prior
Capacity Utilization	JUN	78.9%	79.1%	78.9%
Leading Indicators	MAY	0.6%	0.5%	0.3%
GDP Annualized (1Q)	JUN	-1.8%	-2.9%	2.6%

PRODUCTIVITY	As of	Expected	Actual	Prior
Non-Farm Productivity (1Q)	JUN	-3.0%	-3.2%	-1.7%
Industrial Production	JUN	0.5%	0.6%	-0.3%

Source: Bloomberg.

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