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ECONOMY: Another Mixed Bag

Despite a weak GDP report, the U.S. economy had strong employment gains in April and business trends remain positive.

Q1 GDP Disappoints

U.S. growth in the first quarter rose only 0.1%. The consensus estimates were for 1.1% growth in the first quarter. Much of the disappointment will again by blamed on the harsher then normal winter weather. Consumer spending and health care services, driven by the Affordable Care Act, were strong contributors to growth. Conversely, residential construction, exports and government spending were areas of weakness.

Fed Undeterred

The Federal Reserve is expected to maintain the current path of tapering $10 billion a month in its Quantitative Easing program. Despite weaker than expected Q1 growth, the Fed has noted that it would take an extraordinary shift in their economic outlook to deviate from its current tapering plans. All told, the expectation is that the Fed will likely finish the process sometime in the fourth quarter 2014.

What Next?

In testimony before the Joint Economic Committee of Congress, Federal Reserve Board Chairman Janet Yellen indicated that the U.S. central bank would keep interest rates at their current near-zero level for the foreseeable future. Yellen emphasized that the March guidance from the Fed's Open Market Committee "did not represent a shift in FOMC policy intentions." At the time it was issued, the statement was viewed as a public warning that interest rate hikes were imminent, and the stock market plunged.

Reports on Business

According to the Institute for Supply Management (ISM), economic activity in the manufacturing sector expanded for the 11th consecutive month. Respondents were generally positive, however, there was some concern about international economic and political uncertainty potentially impacting demand. The non-manufacturing sector grew in April for the 51st consecutive month. Respondents noted that both business conditions and the economy are improving.

Strong Employment Gains

In the best monthly showing in two years, employers added 288,000 jobs in April. Employment growth was widespread, led by gains in professional and business services, retail, and construction. This represents three consecutive months in which job creation has exceeded 200,000. The nation's unemployment rate dropped sharply from 6.7% in March to 6.3%

Consumer Confidence Wanes IN April

The Conference Board Consumer Confidence Index®, which had increased in March, declined slightly in April. The Index now stands at 82.3, down from 83.9 in March. The Present Situation Index decreased to 78.3 from 82.5, while the Expectations Index was virtually unchanged at 84.9 versus 84.8 in March.

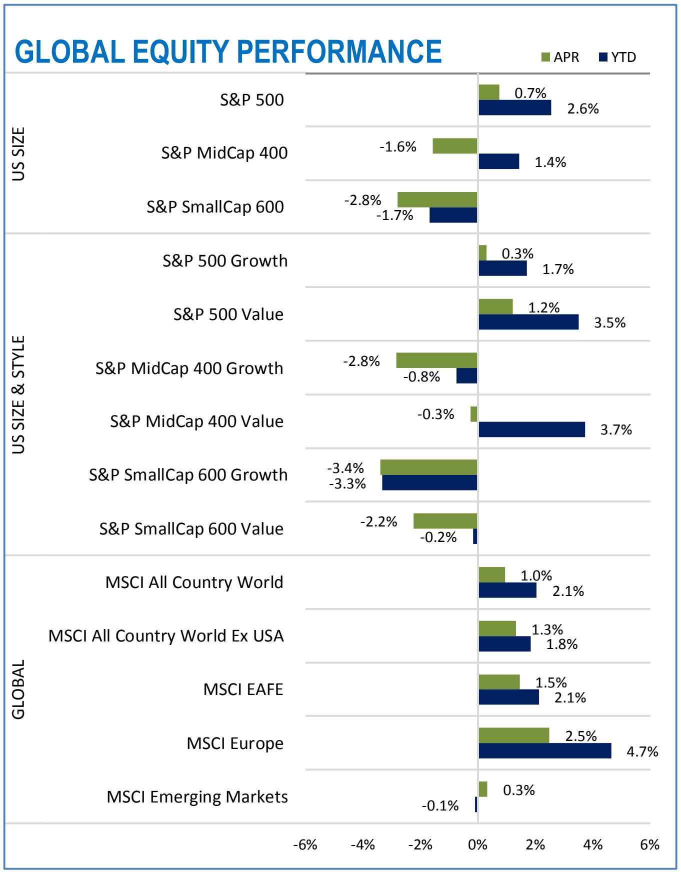
Inflation Still Benign

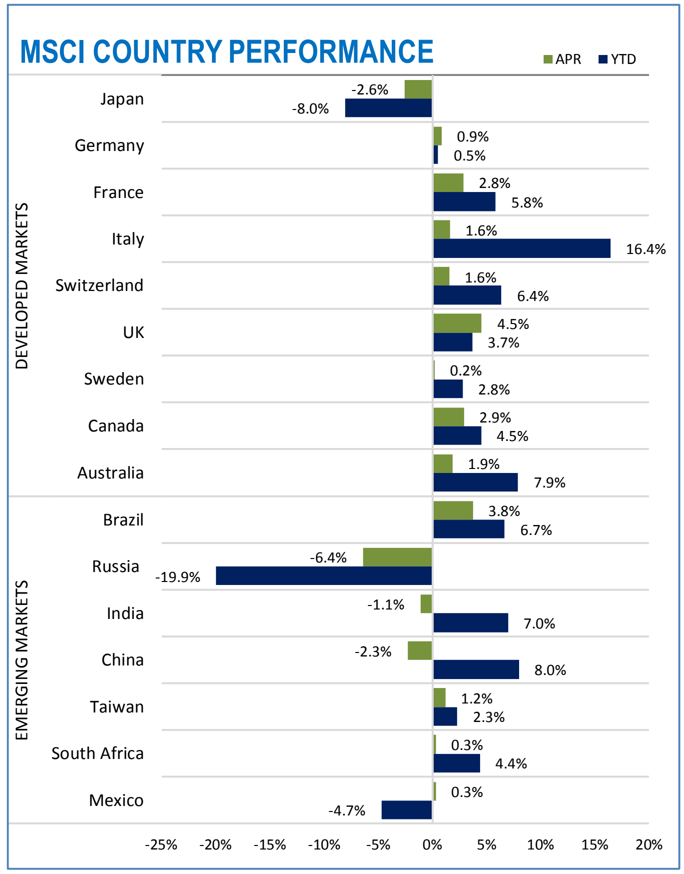
The U.S. economy is showing little sign of shaking a long spell of sluggish price gains, with inflation undershooting the Fed's 2% target again in March. Prices were up 1.1% in March from a year earlier, and rose 1.2% when excluding the volatile categories of food and energy The central bank's preferred inflation gauge, the price index for personal consumption expenditures, has run below 2% for 23 consecutive months.

Europe Improving….But Risk Remains

For the first time since 2009, all eight counties within the Economic & Monetary Union of the European Union (EMU) saw expansion in their manufacturing sectors. This includes Germany, France, Greece, Italy, Spain, Ireland, Austria, and the Netherlands. While not a member of the EMU, the U.K. also reported an expansion in the manufacturing sector for April. While the EU continues to forecast a gradual economic recovery through 2015, they warned that very low inflation and tensions with Russia could derail the recovery.

GLOBAL EQUITIES: A Little More Volatile





U.S. Equities Up Amidst Higher Volatility

Stocks were volatile in April, but large-caps finished modestly higher and the Dow Jones Industrial Average reached an all-time high on the last day of the month. Investors grew more wary of fast-growing, high-valuation "momentum" stocks, and the biotechnology and internet related sectors fell. The S&P Small Cap 600 fell 2.8% in April, and is down 1.7% YTD. Value continued to outperform growth across the market cap spectrum, and April continued this trend.

Earnings Better Than Expected

The first quarter has been marked by better than expected earnings reports. With 91% of the companies in the S&P 500 having reported, nearly 78% have beaten or met earnings expectations. Strength has been shown in the energy and technology sectors, while telecommunications and consumer staples have shown some weakness. While estimates had come down, in part due to the strong winter weather, estimates from S&P show higher growth expectations moving forward.

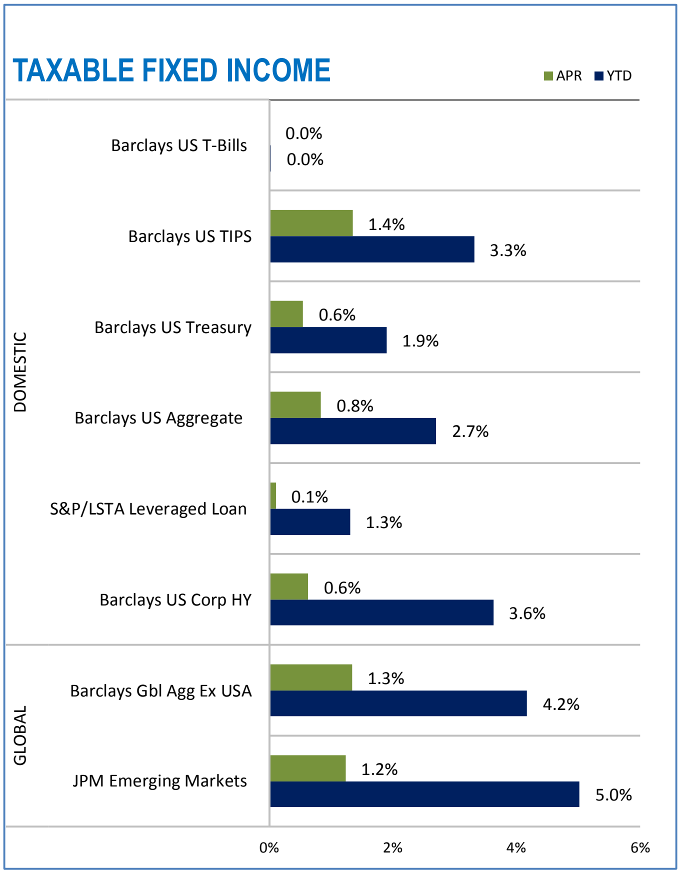
Europe Marches Higher

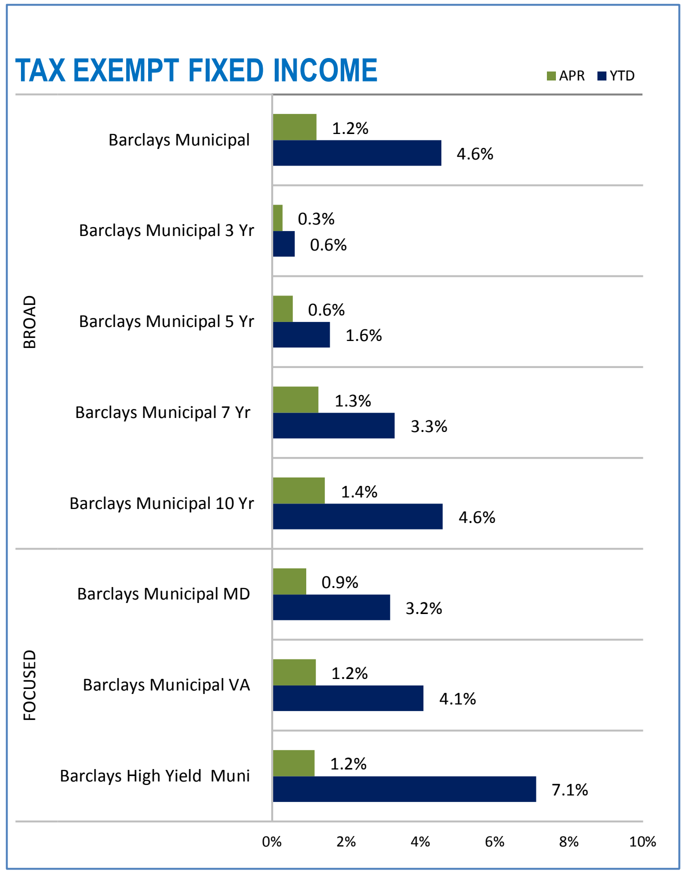
Stocks in developed non-U.S. markets were broadly higher in April, and there has been continued strength in developed European markets. The U.K., France, Italy and Switzerland all highlighted strong months within Europe. The MSCI Italy index is up 16.4% YTD. The European markets continue to benefit from improving investor sentiment as a modest economic recovery continues. The European Central Bank, however, continues to worry about deflation, as the region's inflation rate dropped to 0.5% in March.

BRICs Struggle In April

The MSCI Emerging Markets Index rose to its highest level since November 2013 in early April as worries eased about the Ukraine conflict and China unveiled measures to boost its economy. China's State Council unveiled a small stimulus effort after data showed the economy slowed more than expected. The government later reported the economy expanded 7.4% in the first quarter from a year ago, marking its slowest growth pace in 18 months. The economic backdrop for most emerging markets remained weak. In its latest outlook, the International Monetary Fund cut its forecasts for Russia, Turkey, Brazil, and South Africa.

FIXED INCOME: Slow & Steady





EQUITY VOLATILITY HELPS BONDS

U.S. Treasuries benefited from heightened volatility in U.S. equities as well as some risk aversion stemming from the continuing geopolitical tension in the Ukraine. These concerns helped push Treasury bond prices higher and yields lower for the month. The Barclays U.S Treasury index finished up 0.6%, while the broad based Barclays U.S. Aggregate Index finished up 0.8%.

TAPER CONTINUES

Federal Reserve officials gave no indication that the weak GDP data would cause them to consider changing the steady $10 billion reductions in the pace of the central bank's monthly asset purchases or the eventual start of monetary policy tightening.

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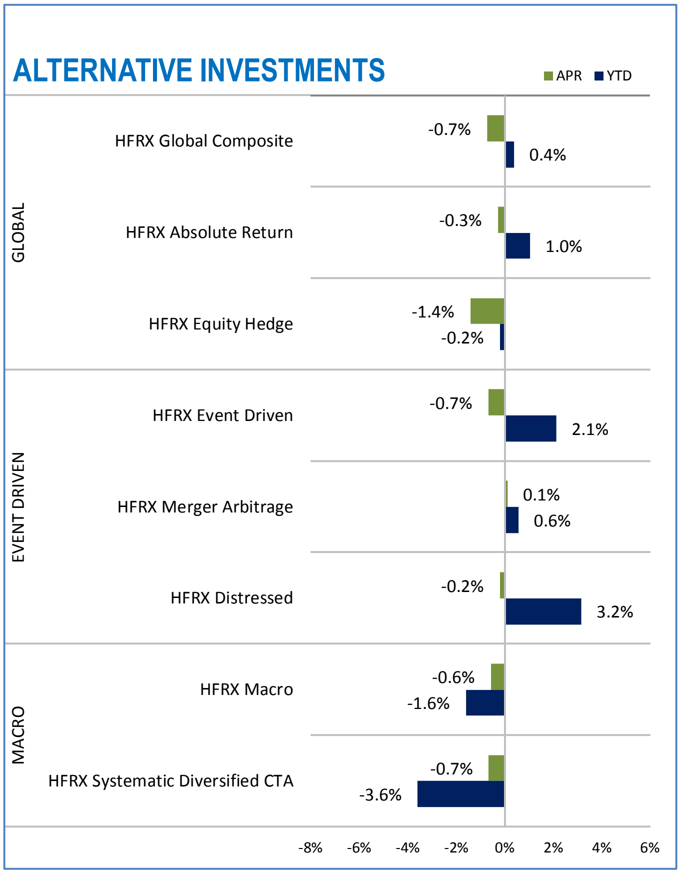
EUROPE BOND MARKETS BETTER TOO

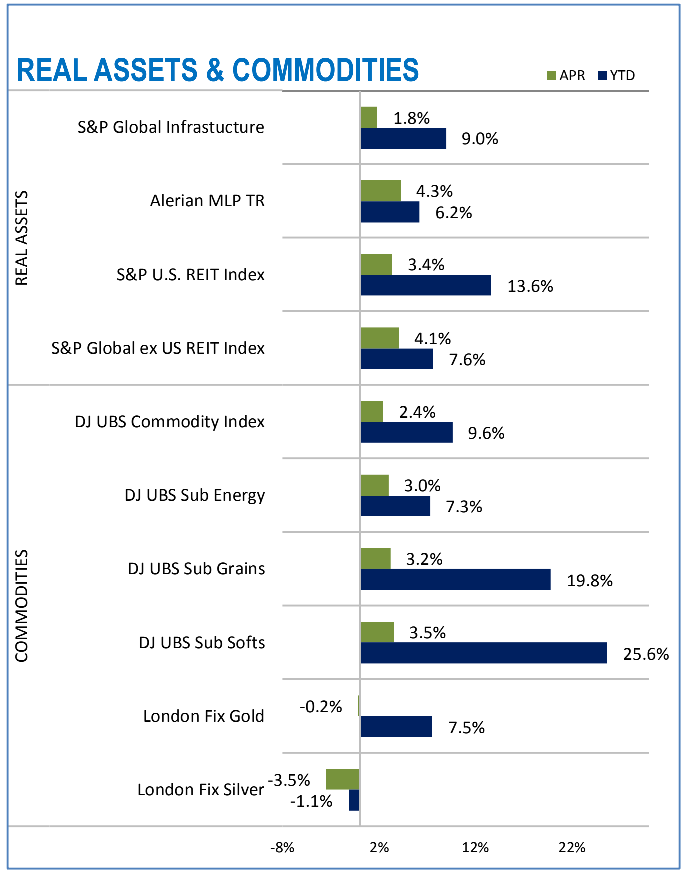
In developed non-U.S. bond markets, the government debt of peripheral Eurozone countries, including Italy, Spain, and Greece, rallied as investors grew confident in their recovery from the sovereign debt crisis. Credit spreads, which measure the additional yield that investors demand as compensation for holding a bond with credit risk versus a similar-maturity Treasury security, on these sovereign bonds, in some cases narrowed to the lowest levels in four years. Greece issued its first long-term bond since its bailout in 2010, taking advantage of strong investor demand for debt with relatively high yields to sell new 10-year sovereign bonds.

LOW ISSUANCE, STRONG RETURNS

Municipals continue to defy expectations and tax-exempt bonds continued to grind higher. Municipal issuance continues to be weak. April municipal issuance was slightly more than $25 billion, with represents a drop of nearly 40% from April of 2013. This moves the 12-month rolling exempt municipal issuance figure to $288 billion—the lowest figure since 2002.

ALTERNATIVES: Real Asset Strength Continues





Hedge Funds Trail Traditional

Overall, hedge funds posted mixed performance in April. However, on a year to date basis most hedge fund strategies trail more traditional long equity and fixed income investments. The Commodity Trading Advisors Index (CTA), commonly known as "managed futures," fell as gains on long term trends were offset by losses on short term trends. The Equity Hedge Index saw gains in market neutral strategies offset by declines in directional strategies. The equity market neutral component of the index has now generated seven consecutive months of gains.

"Real" Nice Performance

One of the continuing themes of 2014 has been the relative strength in nearly all real asset categories. Global Infrastructure, REITs, and commodities continue to generate strong returns, and April was no different. Global infrastructure has benefited from strong returns in the energy and utility components of the index. The strengthening of the global economy has been supportive of REITs despite the prospects of higher interest rates. As macroeconomic conditions strengthen, REITs see higher occupancy levels, increased rent growth, and higher property values. In addition, a lack of new construction has generated an favorable supply and demand dynamic, and the low interest rate environment is boosting valuations. Despite a number of tailwinds subsiding, including geopolitical tensions, a harsh winter, and a spring drought, commodities continued to push higher in April. This comes following several years of sub-par returns for the asset class.