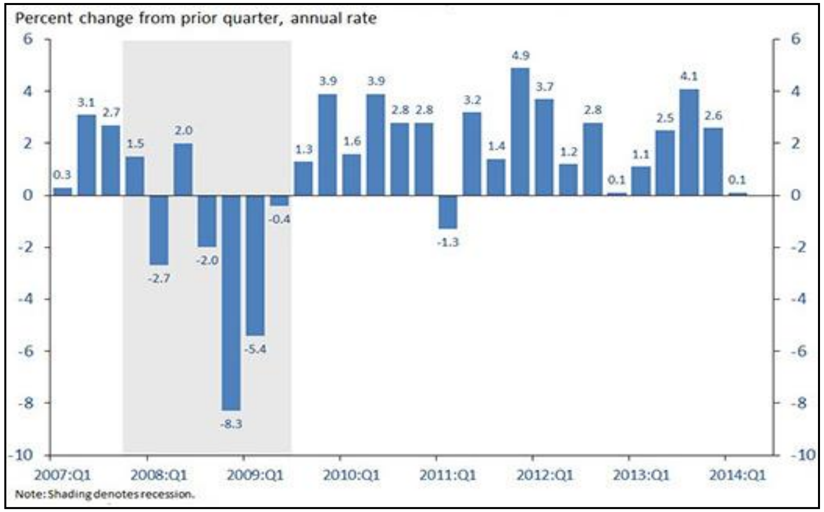
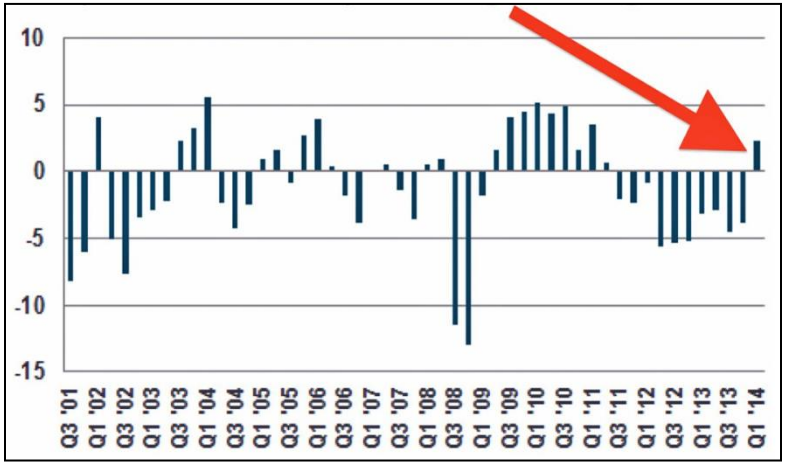
Market Recap

U.S. Quarterly GDP Growth Rates



Source: Council of Economic Advisors

Spread Between Companies Raising vs. Lowering Earnings Guidance



Source: Bespoke

The U.S. economy, which had seen great improvement during the second half of last year, stalled during the first quarter of 2014. Gross domestic product (GDP), the broadest measure of economic activity, grew at an annual pace of 0.1%, which level is exceptionally slow, even by modest post-recession standards. Since the recession ended in June 2009, the economy has been growing at a rate of 2% to 3% per year. The current slowdown was most pronounced in exports, housing, and business investment, especially for equipment purchases. Consumer spending was the lone bright spot with that reading rising by 3% on an annualized basis. Many economists believe the slowdown is merely a temporary phenomenon due to the harsh winter weather and are expecting the economy to bounce back in the spring.

A majority of the companies comprising the S&P 500 has announced Q1 financial results, with 75% of those firms exceeding expectations. As analysts and investors had lowered earnings expectations throughout the quarter, the bar was arguably relatively low. However, one very important trend has emerged during this earnings season: companies are providing positive guidance for future performance. For the past ten quarters, companies had been unwilling to offer positive guidance regarding their forward business projections. This resulted in 'negative guidance spread' (more companies lowering guidance than raising it). This season, however, the spread has flipped, with the percentage of companies raising guidance outnumbering the percentage of companies lowering guidance by 2.3%. This supports the notion that growth may accelerate through the remainder of the year.

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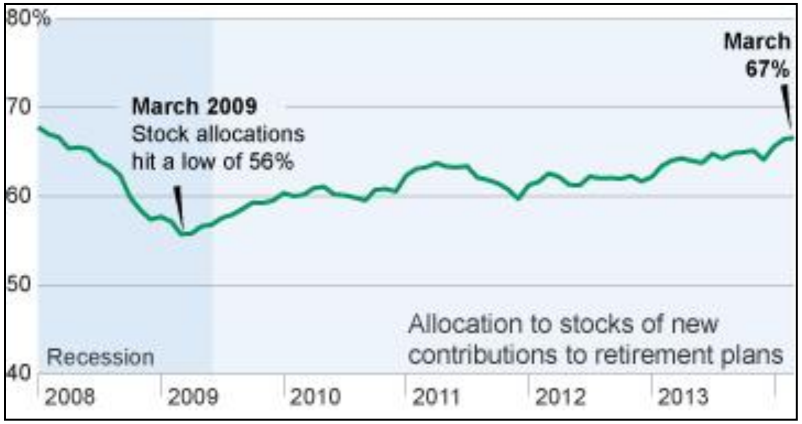
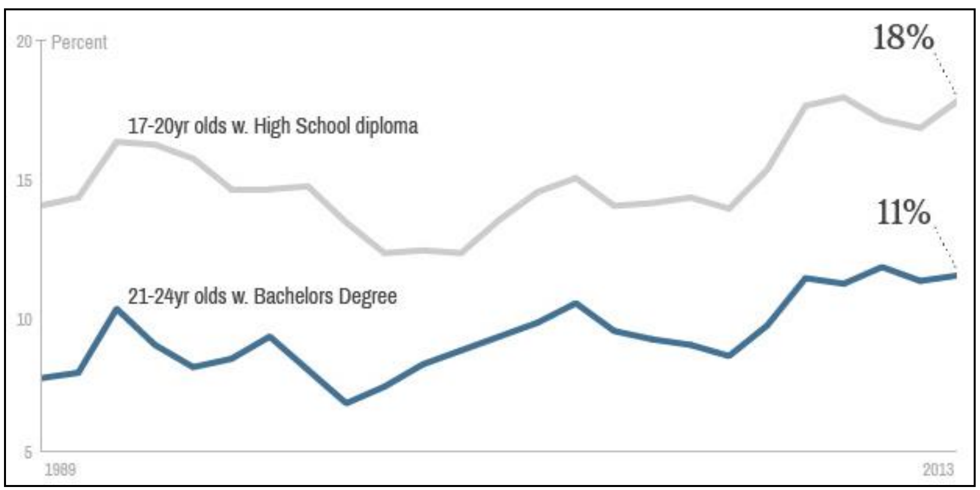
Retirement Plans Contributions to Stocks



Source: Aon Hewitt; WSJ

Retirement investors are putting more money into stocks than they have since the onset of the financial crisis six years ago. New contributions to stock investments currently account for 67% of total investing. That is the highest percentage since March 2008, and compares with 56% in March 2009, when the market hit bottom. These additions, coupled with the recent bull market, have taken retirement allocations to equities back to pre-crisis levels. Today, stocks make up 66% of assets in 401(k)s, up from 48% in February 2009. The stock market crash deeply scarred investors, and, even once the bull market began, they stuck with low-yielding bonds for the better part of three years. It took last year's rally and signs of an improving economy to coax them back into stocks in significant numbers.

Recent Graduates Not in School or Working



Source: Economic Policy Institute Analysis of Bureau of Labor Statistics Data

After the upcoming high school and college graduation celebrations subside, many of our nation's youth will be looking for jobs. The recession officially ended five years ago, yet there is still a sizable group of young high school and college grads who are struggling to determine their next step. Known as 'disconnected youth,' these under 25-year-olds are neither working, nor enrolled in college. Roughly 1 in 5 young high school graduates and 1 in 10 recent college graduates fell into these ranks last year. Young people graduating from high school or college in the next few months will join a sizable backlog of unemployed college graduates from the last five graduating classes in what continues to be an extremely difficult job market.

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