SELECTOR® Money Management
2014 Second Quarter Review

The Second Quarter Looked Easy For Equities

The Second Quarter of 2014 proved to be a ‘walk in the park’ for equity markets. Although April opened with a brief 3% correction, the rest of the journey became increasingly easier. After recovering from April’s pullback and continuing higher, we saw a 2% correction the middle of May, followed by a very respectable rally to new all-time highs for most domestic equity indexes. For the quarter, domestic equity indexes showed gains across the board. The S&P 500 advanced by +6.07% in the second quarter, and now stands at +7.14% YTD, including dividends. The S&P MidCap 400 gained +5.89% for the quarter and is up +7.50% YTD. Small cap equities, which had been remarkably weak, rejoined their larger cap cousins in the second quarter, moving back into the black with a gain of +3.22% YTD after a +3.90% advance in the second quarter. The breadth of the second quarter advance not only included all of the capitalization-weighted sectors, it spread into virtually every industry sector we follow.

Bond Markets Took A Back Seat To Equities But Still Registered Gains

Bond markets also had positive results in the second quarter. While it is likely bonds owed much of their first quarter advance to the moderate correction in equities, it is significant that they held firm, then continued to move higher in the second quarter even as equities regained their momentum. The best-performing domestic bond index of the second quarter, and the best-performing index YTD, is the Barclays U.S. 20+ Year Treasury Bond Index, up +4.76% and +13.19% respectively. Interestingly, the Barclays TIPs Index also advanced nicely in the second quarter, gaining +3.77%, and ending up +5.83% YTD. Normally, the long-term Treasury Index and the inflation-sensitive TIPs Index move in opposite directions. Investment grade corporate bond, utility bond, high yield bond and municipal bond indexes all had nice gains for the quarter.

International Equities Also Surrendered Leadership Positions While Moving Higher

The big story for international equities in the second quarter was the dramatic move in emerging markets. This sector had been contained in an extended trading range, and in late June they made a push that broke above long-standing resistance. The MSCI Emerging Markets Index gained +7.66% in the second quarter and is now up +6.14% YTD. Developed international equities enjoyed positive action as well, with the MSCI EAFE Index rising +4.72%, and the S&P Europe 350 climbing +3.84% in the second quarter. These two indexes now stand at +4.78% and +5.84% YTD, respectively.

Price Action in Both Equities and Bond Markets Have Completely Restored Our Confidence

We are fully invested in equities per the asset class contraints for all of our management styles. Top performing sectors include health care, real estate, technology, basic materials, and financials. The rally in small cap domestic equities in the second quarter has effectively corrected the negative divergence that had persisted in the first quarter. Large cap and mid cap equities broke higher into all-time high territory during the second quarter. Additionally, both developed international and emerging markets appear to be fully engaged at this juncture. There is a very broad advance underway for most all financial assets, underscoring the progress made in 2013. These advances have been methodical and calculated, with no evidence of parabolic activity, which suggests that this Bull Market is far from being over.

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