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**Quarterly Review**

# Global Equity Market Update

*March 31, 2014*

# GLOBAL EQUITY MARKETS
# CALENDAR YEAR RETURNS

| 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | YTD 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| EAFE Small 61.35% | EAFE Small 30.78% | Emerging Markets 34.00% | Emerging Markets 32.17% | Emerging Markets 39.39% | Small Value -28.92% | Emerging Markets 78.51% | Small Growth 29.09% | Large Growth 2.64% | EAFE Small 20.00% | Small Growth 43.30% | Mid Value 5.22% |
| Emerging Markets 55.82% | Emerging Markets 25.55% | EAFE Small 26.19% | EAFE 26.34% | Large Growth 11.81% | Large Value -36.85% | EAFE Small 46.78% | Mid Growth 26.38% | S&P 500 2.11% | Mid Value 18.51% | Mid Growth 35.74% | EAFE Small 3.36% |
| Small Growth 48.54% | Mid Value 23.71% | EAFE 13.54% | Small Value 23.48% | ACWI 11.66% | S&P 500 -37.00% | Mid Growth 46.29% | Mid Value 24.75% | Large Value 0.39% | Emerging Markets 18.22% | Small Value 34.52% | Large Value 3.02% |
| Small Value 46.03% | Small Value 22.25% | Mid Value 12.65% | Large Value 22.25% | Mid Growth 11.43% | Large Growth -38.44% | Large Growth 37.21% | Small Value 24.50% | Mid Value -1.38% | Small Value 18.05% | Large Growth 33.48% | Mid Growth 2.04% |
| Mid Growth 42.71% | EAFE 20.25% | Mid Growth 12.10% | ACWI 20.95% | EAFE 11.17% | Mid Value -38.44% | ACWI 34.63% | EAFE Small 22.04% | Mid Growth -1.65% | Large Value 17.51% | Mid Value 33.46% | S&P 500 1.81% |
| EAFE 38.59% | Large Value 16.49% | ACWI 10.84% | Mid Value 20.22% | Small Growth 7.05% | Small Growth -38.54% | Small Growth 34.47% | Emerging Markets 18.88% | Small Growth -2.91% | EAFE 17.32% | Large Value 32.53% | Small Value 1.78% |
| Mid Value 38.07% | Mid Growth 15.48% | Large Value 7.05% | EAFE Small 19.31% | S&P 500 5.49% | ACWI -42.20% | Mid Value 34.21% | Large Growth 16.71% | Small Value -5.50% | ACWI 16.13% | S&P 500 32.39% | Large Growth 1.12% |
| ACWI 33.99% | ACWI 15.23% | Large Growth 5.26% | S&P 500 15.79% | EAFE Small 1.45% | EAFE -43.38% | EAFE 31.78% | Large Value 15.51% | ACWI -7.35% | S&P 500 16.00% | EAFE Small 29.30% | ACWI 1.08% |
| Large Value 30.03% | Small Growth 14.31% | S&P 500 4.91% | Small Growth 13.35% | Large Value -0.17% | Mid Growth -44.32% | S&P 500 26.46% | S&P 500 15.06% | EAFE -12.14% | Mid Growth 15.81% | ACWI 22.80% | EAFE 0.66% |
| Large Growth 29.75% | S&P 500 10.88% | Small Value 4.71% | Mid Growth 10.66% | Mid Value -1.42% | EAFE Small -47.01% | Small Value 20.58% | ACWI 12.67% | EAFE Small -15.94% | Large Growth 15.26% | EAFE 22.78% | Small Growth 0.48% |
| S&P 500 28.68% | Large Growth 6.30% | Small Growth 4.15% | Large Growth 9.07% | Small Value -9.78% | Emerging Markets -53.33% | Large Value 19.69% | EAFE 7.75% | Emerging Markets -18.42% | Small Growth 14.59% | Emerging Markets -2.60% | Emerging Markets -0.43% |

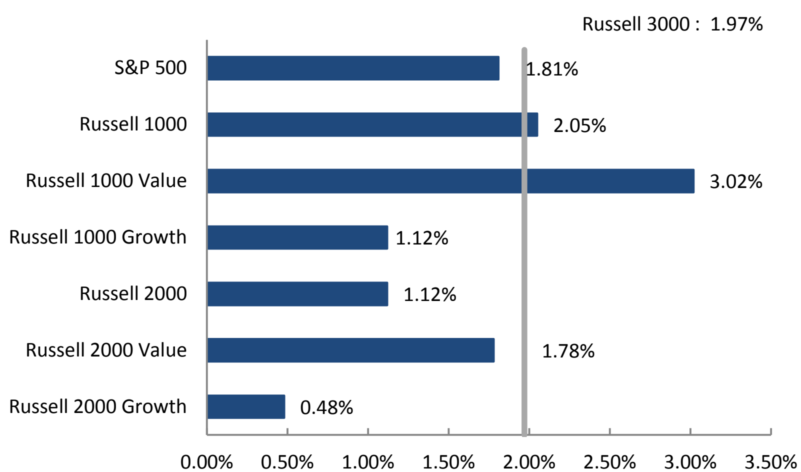
Source: Zephyr

# DOMESTIC EQUITY MARKET

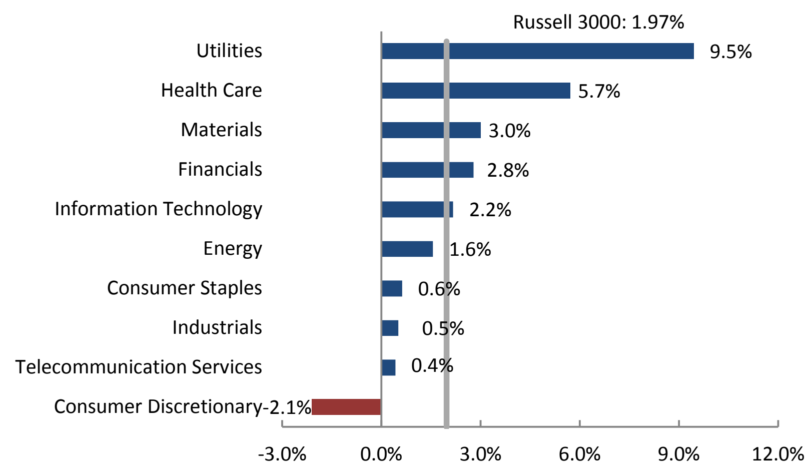
## Domestic Equity Market Highlights

- The S&P 500 ended the first quarter up 1.81%, however the index experienced considerable volatility during the period. Through January, the US market was down -2.93% following investor concerns driven by weaker growth in emerging markets and continued downsizing of the Fed's QE program. Strong corporate earnings reports in February drove a sentiment shift, as 7 out of every 10 companies in the S&P 500 surpassed earnings expectations during the fourth quarter. Macroeconomic data was lackluster during the beginning of the year, but most of the softness was attributed to cold weather.
- Value stocks significantly outperformed growth stocks during the quarter, and large-cap stocks outperformed small-cap stocks as investors were unnerved by volatility and migrated toward defensive areas of the market. By and large, segments of the market that performed best during the fourth quarter experienced selling pressure at the start of the year.
- Volatility, as measured by daily price movement of the Russell 3000 Index, increased during the quarter but remained historically low. Illustrating this, 18.0% of trading days experienced a +/-1% move in the market, compared to 11.3% during the fourth quarter of 2013 and 26.2% since 1987. Daily standard deviation of returns was 0.78% versus the long-term standard deviation of 1.2% since 1987.
- The utilities and heath care sectors were the strongest-performing areas of the US market during the quarter. Despite the rebound in the utilities sector, the segment remains 11.6% behind the broader index for the trailing one-year period. Consumer discretionary performed poorly, as harsh weather negatively impacted consumer willingness to shop; despite the recent performance lag, the sector remains the top-performing segment of the market for the trailing five-year period.
- US market valuations remain elevated, with cyclically adjusted PE ratios 12% higher than the long-term average.

**First Quarter Domestic Index Returns**




**First Quarter Russell 3000 Sector Returns**



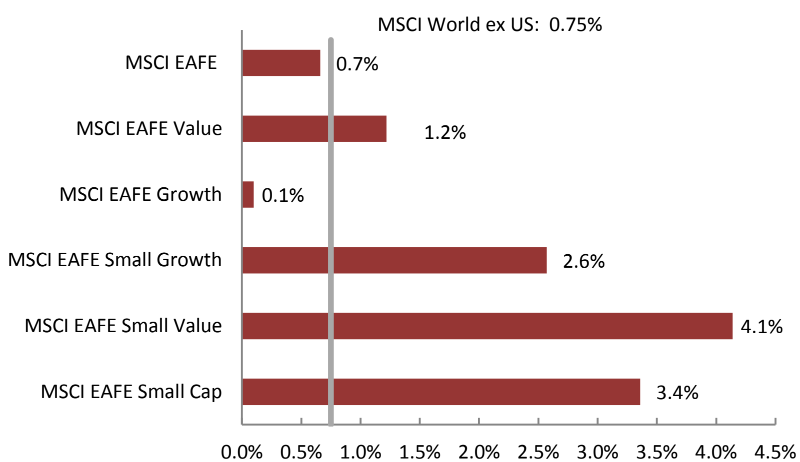

 Source: Bloomberg LP, Lazard, MSCI, Russell, S&P, Zacks

# INTERNATIONAL DEVELOPED EQUITY MARKETS

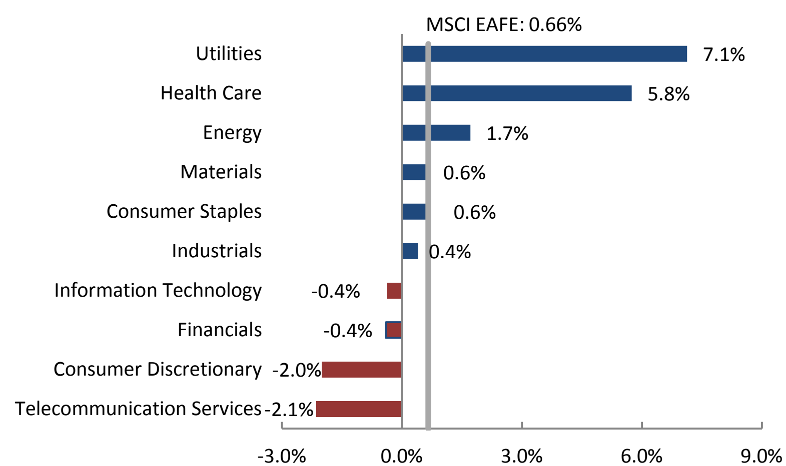
## International Developed Equity Market Highlights

- International developed stocks increased 0.66% in US dollar terms for the quarter, as measured by the MSCI EAFE Index. Currency added 94 bps to the local return of -0.28%.
- The majority of the currency contribution was a result of the 1.95% strengthening of the Japanese yen versus the US dollar. Aggressive monetary stimulus through bond purchases continued to be utilized by Japanese policymakers in an effort to stimulate economic growth. The MSCI Japan Index was down -7.51% in local terms during the quarter, following inflation coming in lower than expected.
- Small cap stocks significantly outperformed large cap stocks as investors favored companies less levered to the global economy and more dependent on secular growth opportunities.
- European markets slightly outperformed broader international developed markets as the Eurozone economic recovery continued in line with expectations. The Italian market increased 14.6% during the quarter, making it the best-performing Eurozone country. Improved investor sentiment followed the country's first positive quarter of GDP growth since 2011. Ireland also produced strong returns, up 13.1% during the quarter. Strict adherence to fiscal targets continued to boost investor appetite for shares of companies in the region.
- The telecom sector was the worst-performing sector, down -2.1%. This followed a 46.2% increase during 2013 after shares benefited from heightened merger and acquisition activity. Similar to the US market during the quarter, investors moved into defensive sectors, driving strong performance in utilities and healthcare.

**First Quarter Int. Developed Index Returns (USD)**




**First Quarter MSCI EAFE Sector Returns**





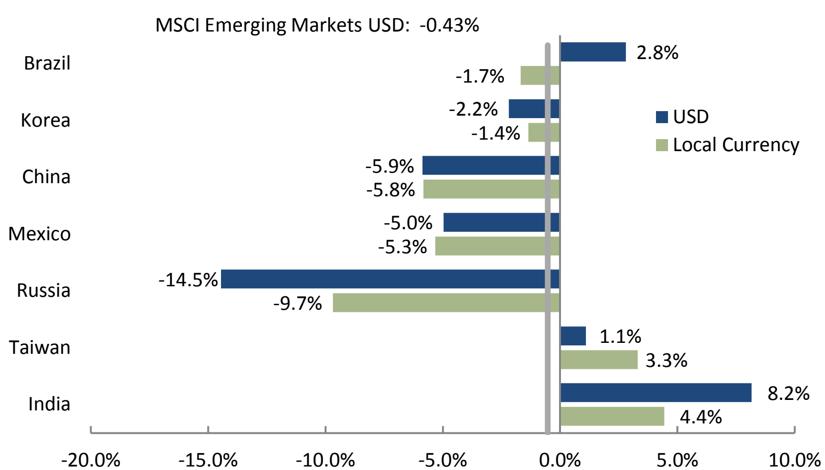
Source: Bloomberg LP, Lazard, MSCI, Russell, S&P

# EMERGING MARKETS EQUITY

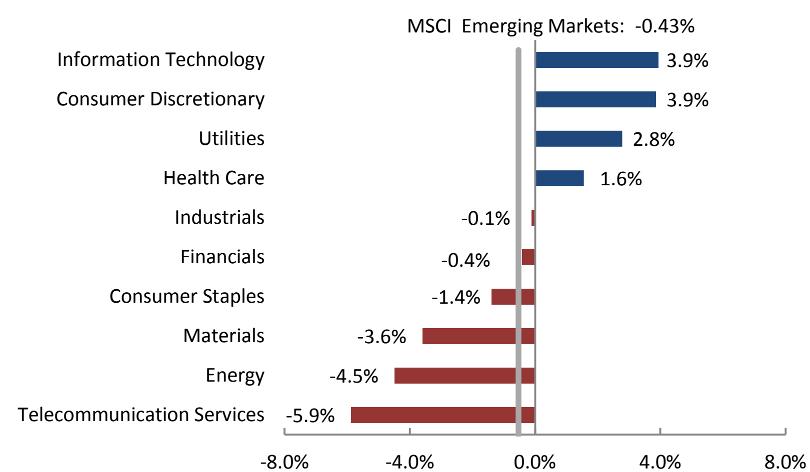
## Emerging Markets Equity Highlights

- The MSCI Emerging Markets Index decreased by -0.43% in US dollars during the quarter. Currency proved to be a slight tailwind to US investors, contributing 10 bps, as the US dollar weakened against emerging markets currencies, in aggregate. Fourth quarter performance in emerging markets lagged developed markets by 128 bps in US dollar terms.
- India was one of the best-performing markets during the quarter, increasing 8.2% in US dollar and 4.4% in local terms. India is currently going through its five-week election process to choose representatives for the lower house of parliament. The country's parliament will select the prime minister for the next five years, so investors are paying very close attention. Lack of business infrastructure has historically been a major challenge for Indian companies, so polls measuring support for the pro-business opposition party have driven market sentiment.
- Three days after the February 23rd Sochi Olympics closing ceremony, Russia invaded Ukraine's Crimean Peninsula. The invasion came following a bill in the Ukrainian parliament that repealed the support of minority languages, including Russian. This act of Ukrainian nationalism was followed by Russian occupancy in Crimea, which is 58% inhabited by ethnic Russians. On March 16th, The Supreme Council of Crimea voted to secede from Ukraine and join the Russia Federation, however, the UN has since declared the referendum invalid. Sanctions placed on Russia from most developed world countries have resulted in poor performance in Russian equities as investors struggled to estimate the resulting economic impact.
- Investors continued to favor secular growth companies, which drove performance in the technology and consumer sectors. Materials and energy continued to underperform due to slower economic growth trends.

**First Quarter Emerging Markets Country Returns**




**First Quarter MSCI Emerging Markets Sector Returns**





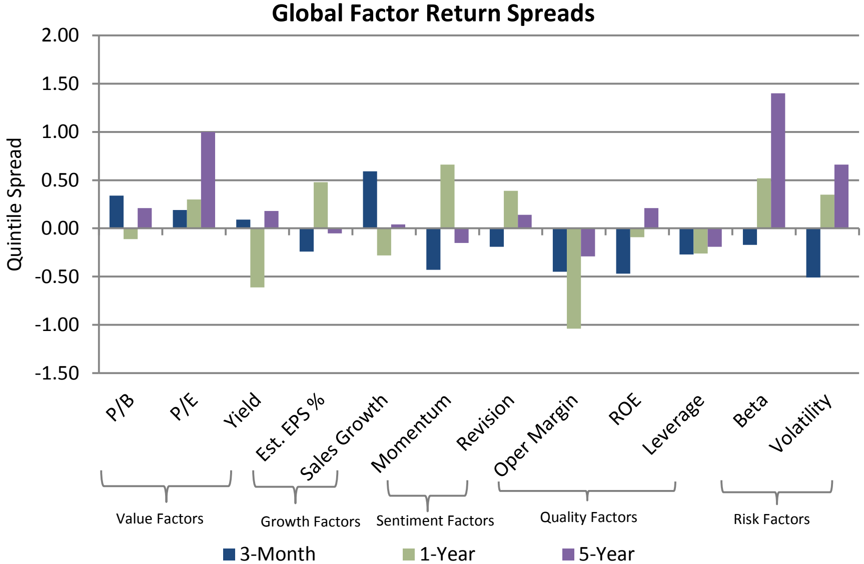
Source: Bloomberg LP, Lazard, MSCI, Russell, S&P

# GLOBAL EQUITY MARKETS

## Global Factor Spreads

- Global equity markets were primarily driven by valuation factors during the quarter. Price-to-book ratio, price-to-earnings ratio, and yield all produced positive factor attribution.
- Investors favored companies achieving sales growth. With the majority of US corporate earnings growth being driven by margin improvement, investor preference for sales growth is not surprising.
- Momentum factors reversed during the quarter, resulting in a headwind.
- Quality, measured by operating margin, ROE, and leverage, were all negative contributors to return.
- Beta and volatility were negative contributors, reversing the trailing five-year trend.

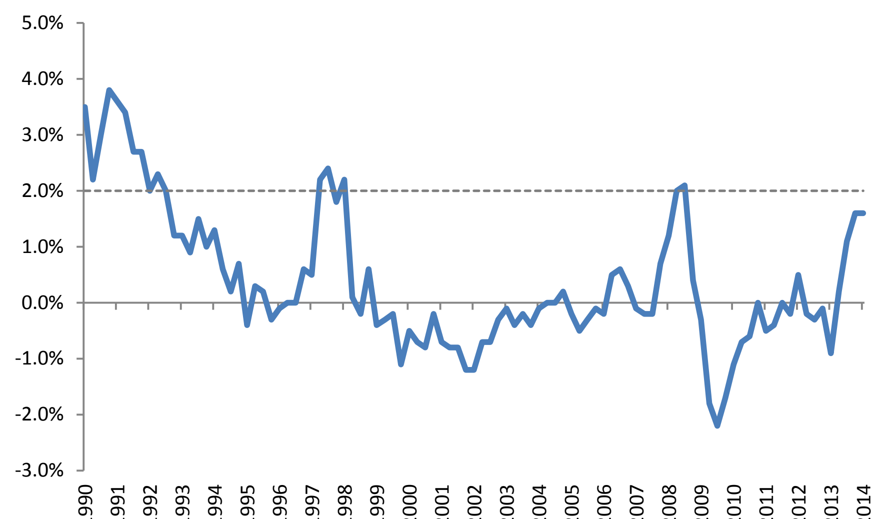
**Global Factor Return Spreads**




## Global Equity Highlights

- Over the 10-year period leading up to 2013, Japan experienced a "Lost Decade," during which the country realized anemic GDP growth and deflation. In an effort to combat this trend, the country's Prime Minister, Shinzō Abe, introduced a plan which incorporates monetary and fiscal policy designed to stimulate economic growth through private investment.
- Japan inflation missed the Bank of Japan's 2% target in March, coming in at 1.6%. Market participants have pointed to this data as the first sign of weakness in the country's aggressive monetary stimulus plan.
- With two of the "three arrows," already being implemented through economic policy measures, investors are focused on the country's ability to implement the third arrow, growth-friendly structural reforms.

**Japan CPI**




Source: Bloomberg LP, Lazard, MSCI, Russell, S&P