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Third-Quarter 2014 Market Review ~ New Market Milestones

October 2014 - Market bellwethers reached new milestones during the third quarter, with the Dow Jones Industrial Average breaching the 17,000 level during the first week of July and the Standard & Poor's 500-Stock index slicing through 2,000 the final week of August. The S&P 500 managed to eke out a gain of 0.6% for the quarter, extending its quarterly streak to seven.

July marked the first monthly decline in 2014 for both the Dow Jones and S&P 500. In August, investors ignored conflicts in the Ukraine, Gaza, and Iraq, and instead renewed bets that monetary stimulus in the form of low interest rates will continue to revive economic growth and corporate profits. Stocks snapped back with the S&P 500 posting its best advance for an August since the year 2000. Despite new mid-month record highs for the market bellwethers, stocks finished September slightly lower.

Broader domestic stock measures were off less than 1% for the quarter, while a stronger dollar led to international indexes sagging 3% to 8%. Falling energy prices hit commodities hard, as the Dow Jones Global Equity Commodity 100 index plummeted 8.3%.

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Meanwhile, the central bank said it would maintain the size of its balance sheet for now, a whopping $4.4 trillion, by reinvesting cash from maturing securities. The bank holds more than four times as many assets as it did before the 2008 financial crisis. Although the Fed is committed to shrinking its balance sheet to a more normal size, it formally announced it does not plan to sell any of its assets, a reversal of the plan presented three years ago. Instead, the Fed said it would eventually stop reinvesting cash from maturing securities and let them run off. However, that process will not start until after it has successfully raised its benchmark interest rate.

The Fed left its interest rate policy unchanged during the third quarter and restated that interest rates would remain near zero for a "considerable time" after the conclusion of the new bond purchases.

Turning overseas, in September, the European Central Bank again lowered its main refinancing rate from 0.15 percent to 0.05 percent and further cut the rate it pays on bank deposits from *negative* 0.1% to *negative* 0.2%, thus increasing the charge to banks to hold money overnight. In its effort to offset weak economic growth and low inflation, the ECB also said it is ready to buy asset-backed securities to pump money into the economy and stimulate bank lending.

Bonds were mixed during the third quarter as the strong dollar saw the "dollar value" of global bonds shrink 3.1%, while the broad U.S. bond indicator added 0.2% and Municipals climbed 1.5%. U.S. Treasury TIPs slipped 2.0%, U.S. Corporate High Yield trailed off 1.9%, and International Emerging Markets shed 0.8%. For the first nine months of the year, all major bond sectors remain in positive territory. Municipals remain in the lead, jumping 7.6%.

At quarter-end, the yield on the 10-year Treasury note was 2.50%, down three and 53 basis points for the quarter and year-to-date, respectively (the yield as of October 14th was 2.20%).

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Equity (Stock) Indices					
Domestic					
Russell 1000 - Large Cap	-0.38%	7.56%	16.30%	18.59%	7.78%
Russell Midcap	-0.50%	6.33%	15.88%	22.36%	10.22%
Russell 2000 - Small Cap	-0.62%	-5.00%	15.67%	20.08%	9.07%
Real Estate (FTSE EPRA/NAREIT Global)	-3.81%	7.18%	6.84%	15.64%	NA
Commodity (Dow Jones Global Equity 100)	-8.30%	-2.80%	-5.50%	NA	NA
International					
MSCI EAFE Developed Large Cap	-5.83%	-0.99%	8.66%	12.96%	7.39%
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MSCI Emerging Markets	-3.36%	2.75%	-1.74%	15.15%	11.52%
Global - MSCI All Country IMI	-2.72%	3.64%	10.40%	16.22%	8.13%
Fixed-Income (Bond) Indices					
Barclays Capital					
Global Aggregate	-3.14%	1.64%	3.14%	4.42%	4.72%
U.S. Aggregate	0.16%	4.10%	3.92%	4.84%	4.75%
U.S. Treasury TIPs	-2.04%	3.67%	5.98%	7.11%	5.58%
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Global - MSCI All Country IMI	-2.72%	3.64%	10.40%	16.22%	8.13%
Fixed-Income (Bond) Indices					
Barclays Capital					
Global Aggregate	-3.14%	1.64%	3.14%	4.42%	4.72%
U.S. Aggregate	0.16%	4.10%	3.92%	4.84%	4.75%
U.S. Treasury TIPs	-2.04%	3.67%	5.98%	7.11%	5.58%
U.S. Corporate High Yield	-1.87%	3.49%	7.99%	18.06%	8.22%
Municipal	1.49%	7.58%	5.85%	6.51%	4.59%
International Emerging Markets	-0.78%	6.60%	8.48%	14.10%	9.13%

Source: russell.com, reit.com, djindexes.com, msci.com, barcap.com

Please feel free to forward this newsletter to friends and colleagues who can benefit from information about investing and financial planning. As always, if I can be of any assistance to you or anyone you know, please do not hesitate to contact me. It would be my privilege to assist with your investment and financial planning needs. For more information, please see our web site at www.kaloramawealth.com.

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