Morningstar Market Commentary

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U.S. markets shrug off tensions in Crimea to reach new highs in 2014's first quarter.

Q1 2014 Morningstar Market Barometer

	Value	Core	Growth
Large	1.97	3.17	–0.08
Mid	3.74	4.86	1.85
Small	3.12	3.02	–1.10

Q1 2014 Morningstar Index Returns

Stocks	
US Market Index	2.00
Global Ex-US Index	0.95
Developed Ex-US Index	1.30
Emerging Markets Index	–0.41
Bonds	
Core Bond Index	1.84
Commodities	
Long-Only Commodity Index	6.31

The first quarter of 2014 brought the five-year anniversary of the U.S. stock market's current bull run, and with it came new all-time highs as well as some geopolitical shocks. While the Federal Reserve continues to closely monitor the flow of economic data, Janet Yellen has suggested that the economy will continue to receive material accommodative policies for the foreseeable future.

The Morningstar US Market Index posted modest gains in the first quarter after the fourth quarter's double-digit rally, rising 2% to begin the year. The U.S. economy endured one of the longest, coldest winters in decades, the effects of which certainly affected a number of sectors and economic indicators. The market did show some signs of wavering in late January as stocks staged a modest sell-off amid inflationary fears, but that pullback was quickly bought in February as stocks continued the resiliency that marked every small pullback endured in 2013.

Geopolitical fears struck for the first time since the Syrian chemical weapons crisis in mid-2013. Shortly after the completion of the 2014 Winter Olympics in Sochi, Russian forces entered the Crimean peninsula, seeking to take control of the region that was once controlled by the Soviet Union. As events unfolded over the next several days, markets endured volatility as U.S. officials and other world leaders sparred over the legality of a possible Crimean annexation by Russia. However, after a controversial vote signaled that 96% of Crimean voters were in favor of secession, the Russian Federation accepted the Crimean parliament's request for annexation, a decision that continues to be debated and contested by the United Nations, leaving the door open for future volatility.

While the bull market continued in the first quarter, it certainly lacked the pace it maintained for the duration of 2013, leading to clamoring for a market top and the possibility of a correction. Several high-flying stocks that served as leaders for the majority of the market's run in 2013 showed signs of weakness in the latter half of the quarter, despite the market closing near all-time highs. With underlying economic conditions remaining mixed, the market may remain in neutral until it receives a major catalyst or greater decisiveness from the Federal Reserve.

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Sector Indexes

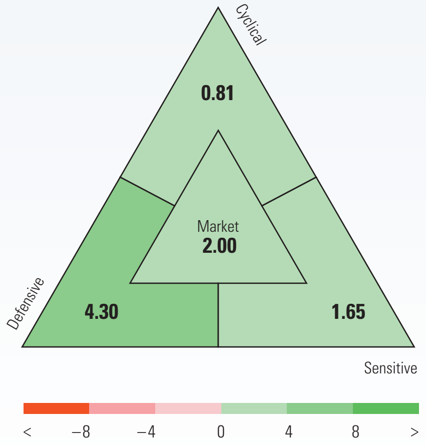
While the market endured a considerable amount of choppiness in the first quarter, equities continued to move higher. Each of Morningstar's Super Sectors delivered small gains, and we saw a bit of a rotation away from high-beta stocks and into larger-cap names, particularly toward the end of the quarter. In a stark contrast to recent quarters, the Defensive Super Sector led the way with a gain of 4.3%, reflecting strong flows into lower-beta stocks near the quarter's end. Conversely, the Sensitive and Cyclical Super Sectors lagged behind after leading for much of 2013, posting gains of just 1.65% and 0.81%, respectively.

Defensive Super Sector 4.30%

The Defensive Super Sector served as an area of relative strength for the market in a quarter that was marked mostly by choppiness. The Utilities sector was the best performer in the first quarter, rising 9.53% on the back of a brutally cold winter that extended well into the first quarter, causing a rise in fuel prices such as natural gas. Health-care stocks were also in demand as a number of biotechs took off in the first quarter, lifting the sector 5.77%. Consumer Defensive stocks lagged with modest gains of 0.46%, as many names in the sector suffered from the harsh winter conditions.

The gains in the Utilities sector were realized essentially across the board, with six of the top 10 contributors posting double-digit gains in the quarter. Leaders such as Exelon Corporation, Edison International, and Public Service Enterprise each delivered gains of more than 20% as heating bills skyrocketed amid the winter cold. The Healthcare sector featured some explosive gains, including InterMune's 127% rise after receiving positive results on its drug pirfenidone. Other big gainers included Myriad Genetics (62.9%) and Forest Laboratories (53.7%).

Q1 2014 Morningstar Sector Delta and Return %



Sector	Quarter	1-Year	3-Year
Cyclical	**0.81**	**23.35**	**14.84**
Basic Materials	2.65	19.32	4.73
Consumer Cyclical	–2.11	25.10	19.99
Financial Services	1.09	27.95	14.95
Real Estate	9.46	2.78	9.62
Sensitive	**1.65**	**22.82**	**11.97**
Communication Svs	–0.43	15.99	16.49
Energy	1.85	16.29	6.44
Industrials	0.30	27.15	14.41
Technology	2.99	26.06	12.78
Defensive	**4.30**	**20.33**	**19.30**
Consumer Defensive	0.46	12.12	16.02
Health Care	5.77	30.33	23.74
Utilities	9.53	10.33	13.54

Morningstar Super Sectors

	P/E	P/B	Yield %	Earnings Growth	Sales Growth
Cyclical Super Sector	17.39	1.98	1.96	8.71	0.80
Sensitive Super Sector	17.47	2.92	2.34	11.43	4.74
Defensive Super Sector	21.81	3.21	2.29	4.44	5.22

Sensitive Super Sector 1.65%

The Sensitive Sector was affected by weakness in high-beta stocks, particularly in the latter portion of the quarter. After Technology stocks posted some of the biggest gains in the market in 2013, the sector delivered just 2.99% growth in the first quarter, while Energy and Industrials stocks followed with small gains of 1.85% and 0.3%, respectively. Speculation about rising interest rates may have affected Communication Services firms in the first quarter, as those stocks declined 0.43%.

Mega-cap technology stocks served as a pocket of relative strength, as names such as Microsoft, Oracle, Hewlett-Packard, and Qualcomm were among the top 10 contributors. Several semiconductor stocks posted strong quarters, with Triquint Semiconductor, RF Micro, and Freescale Semiconductor rising more than 50%.

Cyclical Super Sector 0.81%

The Cyclical Super Sector took a breather in 2014's first quarter, despite a 9.46% gain from the Real Estate sector. Basic Materials and Financial Services stocks rose modestly at rates of 2.65% and 1.09%, respectively, while Consumer Cyclical stocks declined 2.1%.

Several high-profile cyclical stocks weighed on the super sector in the quarter, including double-digit declines from Amazon, Best Buy, and General Motors. The big banks served as a pocket of strength, with Wells Fargo and Bank of America each delivering 10% gains in the quarter, as most banks received positive results from the government's mandated balance-sheet stress tests.

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Style & Cap Indexes

Growth stocks were an area of relative weakness after they played such an integral role in the market's 2013 rally, while Core and Value equities set the pace in the first quarter. The Morningstar US Core Index delivered gains of 3.49%, while the US Value Index rose modestly to the tune of 2.4%. The decline of several high-beta stocks in March had an impact on the Morningstar US Growth Index, resulting in a quarter that was essentially flat. For the size indexes, Mid Cap stocks posted the largest gains at 3.42%, while Small Cap and Large Cap stocks were relatively lethargic, rising 1.69% and 1.64%, respectively, to start 2014.

Morningstar US Core 3.49%

The US Core Index was buoyed by strong performances from large-cap Technology stocks, outsized gains from Biotechs, and solid growth from several big names in the Financial Services firms. Microsoft served as the top contributor, rising 10% in a quarter that saw the tech giant release its Office applications on Apple's iPad. EMC Corporation was also a top-10 contributor from the Technology sector, rising 9.8%. Biotech firms staged some impressive rallies in the first quarter, including solid gains from the likes of top performer Myriad Genetics (62.97%) and top-10 contributor Amgen (8.66%). Bank of America and Berkshire Hathaway each delivered a solid quarter for the Financial Services sector with gains of 10.5% and 5.4%, respectively.

Keurig Green Mountain served as a bright spot for the Consumer Defensive sector after it delivered strong earnings and announced a venture with Coca-Cola, resulting in a 40.2% gain. However, Weight Watchers and Education Management Corporation were two of the worst-performing Consumer stocks, slipping 37.6% and 51.7%, respectively.

Trailing Returns

1-Year

	Value	Core	Growth
Large	18.72	22.75	23.39
Mid	27.69	22.97	23.21
Small	21.92	23.91	25.69

3-Year

	Value	Core	Growth
Large	12.11	17.16	15.06
Mid	16.28	15.44	12.02
Small	15.04	12.46	13.24

5-Year

	Value	Core	Growth
Large	18.13	21.9	20.86
Mid	27.31	26.75	23.9
Small	28.83	25.94	24.9

Morningstar Style & Cap Indexes

	P/E	P/B	Yield %	Earnings Growth	Sales Growth
Morningstar Value	14.03	1.78	2.96	5.40	1.40
Morningstar Core	19.45	2.60	2.09	9.48	2.52
Morningstar Growth	24.22	4.35	1.58	16.11	11.28
Morningstar Large Cap	17.63	2.61	2.43	9.02	2.92
Morningstar Mid Cap	20.58	2.53	1.62	9.77	5.18
Morningstar Small Cap	21.31	2.24	1.42	-0.07	2.54

Morningstar US Value 2.40%

Performance across the Morningstar US Value Index can be described as mixed, as several sectors had both sizable wins and losses. While Tyson Foods was one of the index's strongest performers with a gain of 31.7% in the quarter, fellow consumer names such as Best Buy and Staples experienced substantial sell-offs of 33.3% and 27.87%, respectively, as a number of retail names suffered from harsh weather conditions. Big pharma companies such as Eli Lilly, Merck, and Pfizer were all among the top 10 contributors in the quarter, delivering gains of 16.4%, 14.3%, and 5.7%, respectively.

While big banks such as Wells Fargo (10.3%) and JPMorgan Chase (4.49%) enjoyed solid starts to 2014, Citigroup slid 8.6% after federal regulators rejected the bank's capital plan after stating that it perceived a number of deficiencies in the firm's strategy. Triquint Semiconductor served as the index's top performer, rising 60.55% in the quarter after the firm announced its intent to combine with RF Micro Devices in February.

Morningstar US Growth 0.24%

Growth stocks suffered through a challenging first quarter after soaring for the duration of 2013's market rally. A number of notable names suffered significant declines on the heels of previous runups in price. Amazon's 15.6% decline following poor earnings weighed the most on the index, while declines from Apple (negative 3.76%) and Celgene (negative 17.38%) served as the second- and third-largest contributions to the index.

After Tesla Motors' historic run tapered off toward the end of 2013, the electric vehicle maker was reinvigorated in January when it announced that sales of its Model S had far surpassed its expectations, leading to a substantial earnings beat and the announcement of its planned Gigafactory to improve lithium ion battery supplies. These events catalyzed the stock to a 38.57% rally in the quarter. Conversely, 3-D printing stocks took a substantial tumble after leaders such as Stratasys, ExOne, and 3D Systems all issued warnings about revenue and earnings expectations. 3D Systems was one of the index's largest declines, falling 36.35%.

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Morningstar Mid Cap 3.42%

The Mid Cap Index was dominated by strong performances from the Healthcare sector, evidenced by the 53.7% rise from Forest Laboratories, which represented both the top contributor and top performer in the first quarter. Illumina served as the number-two contributor after shares rose 34.4% to open 2014. The index received a mixed performance from Consumer stocks, as large gains from the likes of Keurig Green Mountain were offset by declines from Best Buy (negative 33.3%) and Nu Skin (negative 39.79%), the latter of which came under scrutiny from the Chinese government after allegations that the company is a pyramid scheme.

IT security continues to be an in-demand sector as stocks like FireEye (up 41.18% in the quarter) have been in focus after data breaches at a number of major institutions. The airlines have also enjoyed a strong start to 2014 despite high fuel prices, evidenced by the 25.5% rise in the shares of Southwest Airlines.

Morningstar Small Cap 1.69%

After the Small Cap Index was 2013's top performer among the size index, many of the stocks in the index could be categorized by either an outsized gain or loss. While top performer and contributor InterMune rose 127% on the back of positive trial results, the 50.6% decline in shares of Conn's weighed heavily on the index as a top-10 contributor. The electronics retailer slid more than $20 per share in February after a weak earnings report. The index also suffered from double-digit declines from top-10 contributors Financial Engines and NeuStar, the latter of which suffered a sell-off in January after concerns that it may lose a major contract with North American Portability Management in 2015.

A pair of Basic Materials companies were among the biggest decliners: Walter Energy and Alpha Natural Resources slipped 54.5% and 40.48%, respectively, as coal continues to fall out of favor as an energy source. Conversely, solar power stocks such as SunEdison remain in demand, as shares of the solar wafer manufacturer surged 44.37% in the quarter, representing the second-largest contribution to the index.

Morningstar Large Cap 1.64%

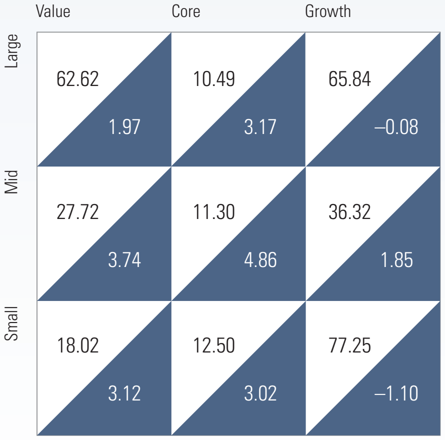
The Large Cap Index struggled to overcome share price declines from five of its top 10 contributors, resulting in a relatively flat quarter. Amazon (negative 15%), Citigroup (negative 8%), General Electric (negative 6.8%), Apple (negative 3.76%), and Exxon Mobil (negative 2.8%) were all among the large-cap decliners that weighed on the index in the first quarter.

Utilities firms served as one of the few bright spots in the index, benefiting from high demand for heat generation against the backdrop of the coldest winter in decades. Exelon Corporation and Edison International each delivered a gain of more than 20% in the quarter. Healthcare stocks helped offset the declines in several Consumer stocks, with Merck, Actavis, and Johnson & Johnson each enjoying a solid quarter. However, General Motors' stock suffered after the company announced recalls in the quarter, resulting in a 15% slide in share price, and toy retailer Mattel slid nearly 15% after earnings came in lighter than expected.

Fund Categories and Benchmarks

The Active vs. Passive chart shows the percentage of actively managed open-end mutual funds that were able to outperform their corresponding Morningstar Indexes benchmark. In the first quarter of 2014, managers across the Core of the Style Box had the hardest time outperforming their benchmarks, with only 10%-12% outperforming across Market Cap bands. Large Growth and Small Growth indexes both posted negative gains for the quarter, and managers in those categories had an easier time outperforming. Large Value managers also outperformed the benchmark on average, with 63% beating the 1.97% return of the Large Value Index.

Active vs. Passive



	Value	Core	Growth
Large	62.62 1.97	10.49 3.17	65.84 –0.08
Mid	27.72 3.74	11.30 4.86	36.32 1.85
Small	18.02 3.12	12.50 3.02	77.25 –1.10

◸ Actively managed mutual funds outperforming their respective benchmark (%)[1]

◢ Index Returns (%), Q1

[1] Includes the oldest share class for all U.S. diversified mutual funds with at least a one-year history. As of March 31, 2014 there were 2,115 eligible funds. Morningstar classifies funds into style categories based on the average style score (using the same 10-factor methodology as underlying benchmarks) of all available portfolio holdings over a three-year period.

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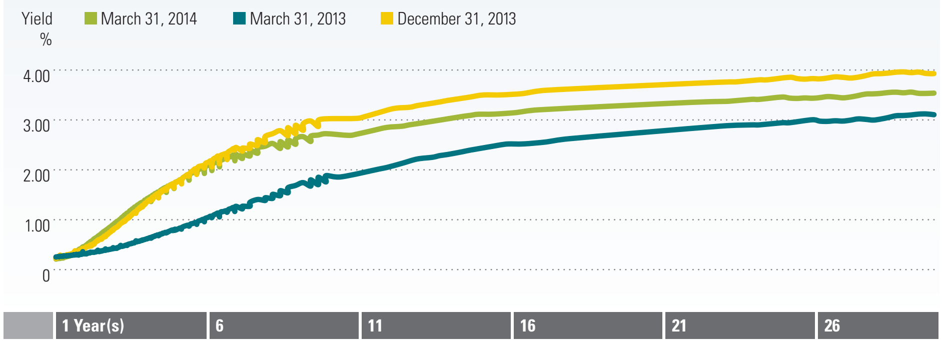
Fixed-Income Indexes

After registering losses in 2013, the fixed-income market ended the first quarter posting respectable returns. Declining interest rates gave results a tailwind, as unusually cold weather disrupted normal economic activity, and investors sought refuge in Treasury bonds. However, we suspect that interest rates will rebound, and gradually converge toward their historical averages, as the Fed continues to pare back its asset purchase program. As such, the fixed-income markets may struggle to generate much more than its current return for the remainder of 2014. While the Fed winds down its quantitative easing, the European Central Bank (ECB) is testing the waters to ramp up its own program.

Treasury Yield Curve



Morningstar Bond Indexes

		Returns		Statistics			
		QTR	YTD	Market Value ($Mil)	Credit Quality	Yield to Maturity	Average Duration
Broad Market	Core Bond	1.84	1.84	14379	AA	2.26	5.35
Sector	US Government	1.38	1.38	6243	AAA	1.39	4.89
	Corporate	2.92	2.92	3498	A–	3.05	6.49
	Mortgage	1.67	1.67	4601	AAA	2.86	5.13
Maturity	Short–Term Core	0.31	0.31	4494	AA	0.75	2.23
	Intermediate Core	1.52	1.52	7057	AA+	2.62	5.02
	Long–Term Core	4.9	4.9	2776	A+	3.8	11.23
Inflation Prot. Secs.	TIPS	1.98	1.98	790	AAA	0.01	7.67
Global Sovereign	Global Govt USD	2.79	2.79	21151	AA	1.42	6.66
	Global Govt ex–US USD	3.37	3.37	14896	AA–	1.42	7.36
	Eurozone EUR	3.99	3.99	7187	A+	1.67	6.38
	Swiss CHF	2.39	2.39	102	AAA	0.66	8.3
	UK GBP	2.17	2.17	1791	AA+	2.47	9.49
	Australasian USD	5.24	5.24	295	AAA	3.61	4.84
	Canadian CAD	2.3	2.3	361	AAA	1.82	6.43
	Japanese JPY	0.82	0.82	5159	A+	0.58	8.18
Europe	Eurobond Corp EUR	2.28	2.28	1277	AAA	1.64	4.56
	European Bank Capital EUR	2.32	2.32	452	AAA	1.89	4.26
	European Covered EUR	2.36	2.36	736	AA	1.23	4.2
	UK Eurobond Corp GBP	2.23	2.23	227	AAA	3.81	8.52
	UK Bank Capital GBP	2.39	2.39	50	AAA	3.89	5.18
Emerging Market	Composite USD	3.01	3.01	106969	BBB	5.01	6.04
	Sovereign USD	3.78	3.78	41630	BBB–	5.33	7.14
	Corporate USD	2.68	2.68	64782	BBB+	4.88	5.28

Data as of 3-31-2014

After Registering Losses in 2013, the Fixed-Income Market Posts Respectable Returns

The Morningstar Core Bond Index—our broadest measure of the bond market—rose 1.84% for the first quarter of 2014. The preponderance of the return was driven by lower interest rates. Declining yields for U.S. Treasuries was driven by weaker-than-expected economic metrics, as unusually cold weather disrupted normal economic activity. In addition, slowing economic growth and rising corporate bond defaults in China, as well as political turmoil in the emerging markets, specifically in Ukraine, are weighing on investor sentiment.

The 10-year Treasury yield declined 31 basis points to 2.72%, and the 30-year Treasury fell 40 basis points to 3.56%. Investors in the long-term segment of the yield curve benefited the most, as indicated by the Morningstar Long-Term Core Index, which rose 4.90%. Those investors that kept their duration short achieved much lower returns. Morningstar's Short-Term Core Index only rose 0.31% last quarter.

While all fixed income securities benefited from the decline in interest rates, corporate bonds outperformed as credit spreads tightened. As the Federal Reserve's asset purchase program has removed bonds from the marketplace, and as investors stretch for yield in a low interest rate environment, the average credit spread within the Corporate Bond Index tightened 8 basis points to 112 basis points above Treasuries. This is the lowest spread registered by our index since prior to the 2008/09 credit crisis, and is near the low end of the range that we consider fairly valued.

Even though the Fed is tapering its asset purchase program, it will continue to provide a substantial amount of new liquidity into the markets in 2014. As the Fed removes mortgage-backed and Treasury bonds from the market, investors have increasingly fewer fixed-income assets from which to choose. This decrease in supply has become even more pronounced, as the U.S.

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government's deficit is shrinking. The reduction in supply has had a favorable impact on demand for corporate bonds, and has pushed credit spreads tighter as the Fed-created liquidity looks for a home.

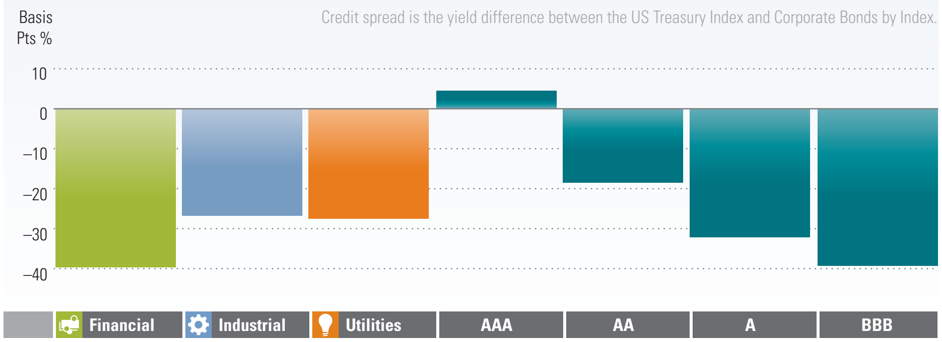
Although emerging-market stocks suffered significant losses in the first quarter as investors pared back on risk, their respective fixed-income indexes returned noteworthy gains. Morningstar's Emerging Markets Composite Bond Index rose 3.01% last quarter, based on a combination of gains in both sovereign and corporate bonds. The Emerging Markets Sovereign Bond Index rose 3.78% and the Emerging Markets Corporate Bond Index increased 2.68% in the first quarter.

Returns for the Remainder of 2014 Will Be Constrained

We expect the fixed-income markets will likely struggle to extend its current gains into the remainder of 2014. With interest rates poised to rise and credit spreads at their tightest levels since the end of the 2008-09 credit crisis, we expect rising rates will largely offset the current yield most bonds currently offer. Historically, the yield on 10-year Treasury bond has averaged 200 to 250 basis points over the inflation rate. Even with inflation running at an average 1.4% over the past three months, the yield on the 10-year Treasury could increase to 3.25% to 3.75% to reach historical norms.

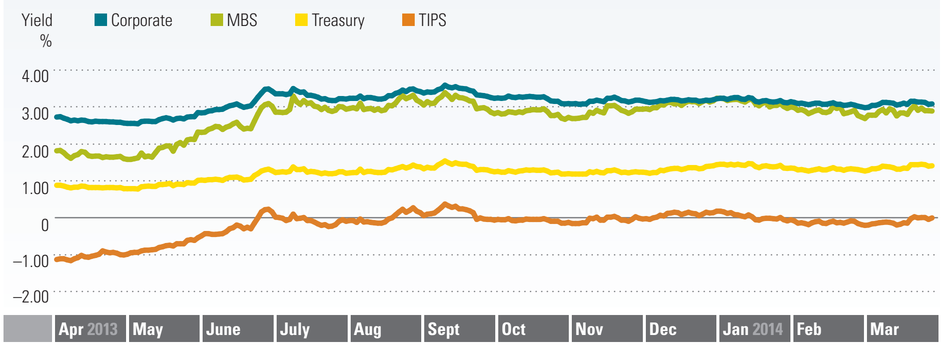
After peaking in 2012, market-implied inflation expectations have been declining, and are now near the lower end of their recent range. This should have a moderating effect on how high interest rates would rise, but also creates a floor as to how low Treasury Inflation-Protected Securities (TIPS) will trade. After suffering some of the greatest losses among the fixed-income asset class last year, investors in TIPS recaptured some of their losses, as the Morningstar TIPS Index rebounded 1.98% in the first quarter.

Credit Spread Change by Sector and Quality



Credit spread is the yield difference between the US Treasury Index and Corporate Bonds by Index.

US Bond Indexes: Average Yields



ECB Floats Trial Balloons to Test Market's Reaction to Quantitative Easing

While the Fed continues to wind down the size of its asset purchases, members of the ECB have begun to float trial balloons to test the market's reaction to beginning their own quantitative easing program. One of the ECB's goals is to target inflation at 2%, yet they have fallen well short of this goal. Inflation in the Eurozone as a whole has slowed to 0.7% and in some countries, has dropped below zero, indicating a deflationary environment.

The two mechanisms under consideration are changing the overnight deposit rate to negative, and/or beginning an asset purchase program. By charging banks to deposit funds, the ECB is trying to force banks to either lend short-term funds to other banks, providing liquidity and lower short term funding costs, or to purchase short-term sovereign bonds, which also effectively lower rates. Similar to the U.S. program, the ECB may purchase long-dated bonds to reduce long-term interest rates. As we have seen in the U.S., this newly created money would find its way into the corporate bond market, and could push credit spreads tighter as investors search for yield. Prior to the 2008-09 credit crisis in the U.S., the average spread in our Corporate Eurobond Index traded about 50 basis points tighter than in our U.S. Corporate Bond Index. Currently, the spread differential is 15 basis points. So even though economic growth is stronger in the U.S. and U.S. banks are arguably better capitalized than their European peers, we could see European corporate bonds outperform.

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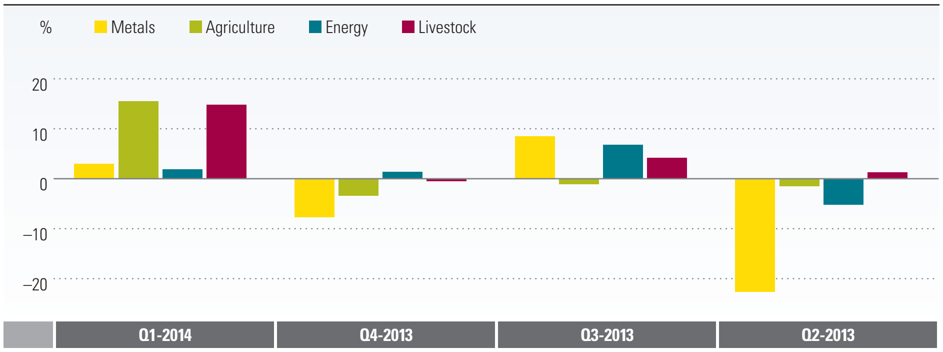
Commodities Indexes

After being slaughtered by equities in 2013, commodities showed signs of life in the first quarter of 2014, benefiting from harsh weather conditions and news that agricultural stockpiles had dwindled significantly. While a modest bounce in gold and silver prices helped the Morningstar Metals Index rise 3.01%, the largest gains were realized in the Morningstar Agriculture and Livestock indexes. After news broke in late March that corn stockpiles had endured a material decline, agriculture prices spiked, extending the already solid gains for both indexes in the quarter to more than 15%. The Morningstar Energy Index rose by a modest 1.88%.

Though gold, silver, and other precious metals suffered precipitous declines for much of 2013, inflation expectations aided the modest rally in the Metals Index. Gold prices rose roughly 5.4% in the first quarter, while silver prices rallied as much as 10% before ending the first quarter relatively unchanged from the start of the year. Copper prices slid for most of the quarter, falling roughly 10% to open 2014 after staging a modest rally in the latter half of 2013.

Energy prices were a mixed bag in the first quarter. Strong demand for heat amid a brutal winter caused natural gas prices to surge as much 13% in the first quarter before settling up roughly 3%. WTI Crude closed the quarter roughly in line with where prices were at the end of 2013 despite plenty of price volatility in the quarter, though prices rallied after a steep decline after the calendar turned.

Quarterly Commodity Sector Returns



Morningstar Commodity Index Returns %

	Quarter	1–Year	3–Year	5–Year	10–Year	YTD
Long-Only	6.31	1.73	–2.96	9.36	5.43	6.31
Long/Flat	–0.15	–3.07	–5.84	2.88	5.56	–0.15
Long/Short	–3.45	–1.14	–5.93	0.35	4.25	–3.45
Short/Flat	–3.30	1.99	–0.16	–2.26	0.20	–3.30
Short-Only	–6.83	–2.83	–0.40	–10.29	–4.85	–6.83
Agriculture	15.70	8.87	0.26	11.02	4.08	15.70
Energy	1.88	4.62	–2.09	5.83	–0.58	1.88
Livestock	15.00	20.72	–0.63	3.14	1.05	15.00
Metals	3.01	–20.54	–7.59	7.08	12.59	3.01

Market Commentary Conclusion

With the latest iteration of a U.S. bull market in equities reaching its five-year anniversary, many are wondering where stocks can go from here. Many continue to argue that the outlandish gains in the stock market have been pumped up on stimulus and accommodative interest rate policies that have masked weakness in the underlying economy. Others have pointed to the meteoric rise of stocks in sectors such as solar power, biotech, and 3-D printing as evidence of market bubbles, though the greater market refrained from pulling back when those stocks suffered in the latter portion of the first quarter.

Markets are becoming increasingly responsive to Janet Yellen and the Federal Reserve's discussion over how long stimulus can last, when tapering will ramp up, and when the market can expect a rise in interest rates. The Federal Reserve has left little to interpretation over the past several meetings, reiterating that its decisions will be completely data dependent, allowing equity markets to march higher. In the meantime, a significant amount of capital from retail investors remains on the sidelines, suggesting that the rally could continue to have legs. Others fear that the entrance of this capital will signal a euphoric market top.

Will the IPO market remain as frothy in 2014 as it did in 2013? Will tech valuations reach new heights or revert to more justifiable levels? Which sectors will emerge as leaders and will last year's leaders take a back seat? How will Janet Yellen's policies evolve as her tenure as chairwoman moves forward, and will an increased taper pull the plug on this bull market? Will geopolitical tensions have a greater impact on the markets in 2014 after a relatively tame 2013? These are just some of the questions on investors' minds as markets enter their next stage.

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Q1 2014 Style Indexes

	US Market	Value	Core	Growth
	2.00	**2.40**	**3.49**	**0.24**
Large	**1.64**	**1.97**	**3.17**	**–0.08**
Mid	**3.42**	**3.74**	**4.86**	**1.85**
Small	**1.69**	**3.12**	**3.02**	**–1.10**

	Total Returns %					Price/ Earnings	Price/ Book	Yield %	5–Yr Earn Growth
	3–Month	1–Year	3–Year	5–Year	10–Year				
Morningstar US Market	**2.00**	**22.32**	**14.64**	**21.89**	**8.07**	**18.33**	**2.56**	**2.20**	**10.36**
Large Cap	1.64	21.57	14.76	20.29	7.30	17.63	2.61	2.43	10.04
Mid Cap	3.42	24.57	14.56	25.97	10.08	20.58	2.53	1.62	11.44
Small Cap	1.69	23.81	13.55	26.52	9.60	21.31	2.24	1.42	12.11
US Value	2.40	20.77	13.16	20.69	7.41	14.03	1.78	2.96	7.84
US Core	3.49	22.80	16.50	23.19	9.16	19.45	2.60	2.09	10.36
US Growth	0.24	23.49	14.30	21.80	7.38	24.22	4.35	1.58	14.80
Large Value	1.97	18.72	12.11	18.13	6.36	13.61	1.82	3.16	7.51
Large Core	3.17	22.75	17.16	21.90	8.75	18.76	2.58	2.27	9.91
Large Growth	–0.08	23.39	15.06	20.86	6.43	22.89	4.49	1.89	14.66
Mid Value	3.74	27.69	16.28	27.31	10.03	15.02	1.70	2.46	9.11
Mid Core	4.86	22.97	15.44	26.75	10.12	21.79	2.75	1.74	11.78
Mid Growth	1.85	23.21	12.02	23.90	9.86	29.30	4.13	0.75	15.13
Small Value	3.12	21.92	15.04	28.83	10.26	16.88	1.59	2.27	9.26
Small Core	3.02	23.91	12.46	25.94	9.60	21.78	2.35	1.27	13.16
Small Growth	–1.10	25.69	13.24	24.90	8.70	29.41	3.61	0.66	16.41

Q1 2014 Sector Indexes

	Total Returns %					Price/ Earnings	Price/ Book	Yield %	5–Yr Earn Growth
Index	3–Month	1–Year	3–Year	5–Year	10–Year				
Cyclical	**0.81**	**23.35**	**14.84**	**24.15**	**3.12**	**17.39**	**1.98**	**1.96**	**11.32**
Basic Materials	2.65	19.32	4.73	19.93	8.46	19.49	2.77	2.27	11.17
Consumer Cyclical	-2.11	25.10	19.99	30.53	8.99	19.48	3.77	1.49	13.30
Financial Services	1.09	27.95	14.95	21.82	0.60	14.69	1.35	1.74	10.55
Real Estate	9.46	2.78	9.62	28.12	7.46	27.41	2.15	4.37	6.64
Sensitive	**1.65**	**22.82**	**11.97**	**20.76**	**8.66**	**17.47**	**2.92**	**2.34**	**10.35**
Communication Svs	-0.43	15.99	16.49	23.27	10.04	15.16	2.67	2.60	8.41
Energy	1.85	16.29	6.44	21.45	15.41	15.48	2.05	2.24	8.58
Industrials	0.30	27.15	14.41	25.27	9.48	18.74	3.21	1.80	10.71
Technology	2.99	26.06	12.78	21.48	8.18	18.91	3.55	2.62	12.02
Defensive	**4.30**	**20.33**	**19.30**	**18.91**	**7.92**	**21.81**	**3.21**	**2.29**	**8.76**
Consumer Defensive	0.46	12.12	16.02	18.57	9.42	20.02	3.68	2.88	8.89
Health Care	5.77	30.33	23.74	22.53	9.66	23.83	3.75	1.50	9.65
Utilities	9.53	10.33	13.54	15.54	9.66	20.25	1.71	3.73	5.03

Bond Indexes

	3–Month	1–Year	3–Year	5–Year
Core	1.84	-0.03	3.95	4.55
US Government	1.38	–1.25	3.26	2.73
Corporate	2.92	1.53	6.03	9.04
Mortgage	1.67	0.75	3.36	3.94
Short-Term	0.31	0.62	1.56	2.40
Intermediate Term	1.52	0.18	3.71	4.29
Long-Term	4.90	–1.39	7.63	7.99
Global Government ex. US	3.37	3.52	1.64	4.22
Emerging Markets Composite	3.01	–0.29	5.00	11.53

Commodity Indexes

	3–Month	1–Year	3–Year	5–Year	10–Year	15–Year
Long-Only	6.31	1.73	–2.96	9.36	5.43	10.31
Long/Flat	–0.15	–3.07	–5.84	2.88	5.56	9.64
Long/Short	–3.45	–1.14	–5.93	0.35	4.25	8.92
Short/Flat	–3.30	1.99	–0.16	–2.26	0.20	1.35
Short-Only	–6.83	–2.83	–0.40	–10.29	–4.85	–6.68
Agriculture	15.70	8.87	0.26	11.02	4.08	4.66
Energy	1.88	4.62	–2.09	5.83	–0.58	10.29
Livestock	15.00	20.72	–0.63	3.14	1.05	3.81
Metals	3.01	–20.54	–7.59	7.08	12.59	12.31

All data in this issue as of 3-31-2014

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