

Market Update  
July 2014  
By Tim Courtney



When we reflect back on the [second quarter of 2014](#), what stands out is how calm the markets were. Though we ended the quarter with a more than 5 percent gain in the S&P 500, the Dow reaching the 17,000 milestone and even bonds seeing an uptick, the markets' behavior was very unremarkable. We saw very low volatility and few daily swings of 1 or more percent – either way – during the entirety of the quarter. Even the VIX, the S&P 500 volatility index, is at its [lowest point since 2007](#).

As we have mentioned in previous columns, we still view stocks as attractive relative to the alternatives, though we are keeping a close eye on growth, which could limit market upside. It appears to us that the market is assuming slow, albeit positive, growth, but if we have another bad GDP report (Q1 was revised to -2.9 percent), it wouldn't surprise us to see a correction.

Should a correction happen, though, we wouldn't expect a large drop in market prices. Recent employment reports suggest the Q1 report was an anomaly rather than a sign of things to come. Further, there is still a lot of cash sitting on the sidelines waiting to be deployed in banks, corporate balance sheets, and in private equity and hedge strategies. Merger activity is high, and when we have had slight market declines over the last couple of years, they have not lasted long as cash has come flooding back into shares.

In terms of the Federal Reserve's activity this quarter, Chairwoman Janet Yellen indicated that [rates will likely increase](#) during the first quarter of 2015. The Fed appears to be wary of inflation risk and asset bubbles and is trying to make sure a lot of money doesn't flood out to the economy at the same time. While the Fed still has some tools at its disposal to encourage growth and keep rates low, its powers to further stimulate the economy are clearly diminishing.

We are encouraged by the uptick in the markets and the fact that interest rates have stopped falling, and we will continue to pay close attention to the Fed and the next GDP number.

#### Sources:

- 1) T.Rowe Price: [Second Quarter 2014 Market Wrap-Up](#)
- 2) USA Today: [Yellen: First rate hike possible in late 2015](#)
- 3) Investment News: [Something to fear: fear itself](#)

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