Stocks: Amidst Increasing Volatility Global Stocks Offer Positive Returns

Stocks began the year at all-time highs, corrected 6%-6.5% in February, but ended the quarter up for the year. The MSCI All-Country World Index returned 1.15% for the first quarter of 2014. The U.S. markets fared somewhat better. The Standard and Poor’s 500-stock index of U.S. stocks delivered a total return of 1.8%, while the index of international stocks EAFE returned 0.66%. Within developed international markets, profit taking hurt the Japanese stock market. The Nikkei 225 average declined -7.11% in the first quarter of 2014. Emerging markets continued to lag developed market equities. Stocks of emerging market countries returned -0.43%.

Following a strong 2013, stocks were tested in the first quarter by a multitude of factors: profit taking, especially in the momentum sectors such as biotechnology and social media; bad weather, which hurt global growth; frothy valuations; and increasing tensions between Russia and the West. The new chairwoman of the Federal Reserve raised investor anxiety when she suggested that short-term rates might begin to move higher in the second half of 2015. Within U.S. equities, investors sought safety in utilities, up 10.1%, and healthcare, up 5.8%, while consumer discretionary stocks of media, retail, and restaurant companies fell -2.8% in the first quarter of 2014.

Bonds: A Strong First Quarter

Defying expectations, bonds offered solid returns to investors in the first quarter of 2014. The Barclays U.S. Aggregate bond index returned 1.84%, similar to stocks, but with much lower risk. Factors that helped bonds included: bad weather hurt the U.S. economy, turmoil in emerging markets, and investors balanced their asset allocations after a strong equity market in 2013. Within fixed income, lower rated higher yielding bonds did better than the broad market. The high yield sector was up 3.0% while the preferred index was up 7.7%. Money also flowed into emerging markets with the J.P. Morgan Emerging Markets bond index up 3.1% for the quarter.

Commodities: Snap Back

Following a difficult 2013, commodities have been the best performing asset class this year. The Dow-Jones UBS commodity index, which tracks 22 commodity prices, rose 7% in the first quarter of 2014. Within commodities, agricultural commodities were the best performers as droughts in Brazil and the U.S. hurt supplies. The Dow Jones Agriculture Commodity index rose 16.5% with coffee prices rising 58%. Corn, wheat, and soybeans prices all rose by more than double digits. Most analysts believe that the damage from crops should be temporary and prices should settle down as conditions improve.

Sources: Wall Street Journal, Bank of America Merrill Lynch, Goldman Sachs, Bloomberg, Factset

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