**Stocks: Accommodative Central Banks Drive Solid Returns**

In the United States, Chairman of the Federal Reserve Janet Yellen assured investors that while the Fed would taper its bond purchase program, it is likely to continue its low interest rate policy well into 2015 to support economic growth and the job market. Meanwhile, the European Central Bank (ECB) announced several measures to stimulate growth and fend off deflation in the Eurozone. These included a cut in its benchmark interest rate, the introduction of a negative deposit rate for bank reserves, and targeted long-term refinancing operations to boost lending.

Investors responded by buying stocks. The MSCI All-Country World Index returned 4.61% for the second 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 5.23%. Outside the U.S., the index of international developed markets stocks EAFE returned 3.66% and emerging market stocks offered investors a total return of 5.25%.

In the U.S., large company stocks continued to outperform stocks of smaller companies, suggesting that the bull market is maturing. In the second quarter of 2014, the Russell 2000-stock index of small companies returned only 2.0% compared to over 5% for stocks of large companies. Geopolitical tensions in Ukraine and Iraq caused oil prices to rise over 4%. Energy was the best performing sector with a total return of 12.1%. The low interest rate environment also drove investors into sectors such as utilities and real estate securities, which returned 7.8% and 7.1%, respectively. Consumer discretionary and financials were the worst performers in the second quarter.

In international markets, it appears that the economic recovery in Spain is gathering steam. Spanish stocks were up 7.4% in the second quarter and are up 12.5% in 2014. The Indian stock market returned over 17% as the country elected a new business-friendly government in May of this year.
Bonds: Rally Continues Into the Second Quarter

The contrarian rally in the bond market which began in the first quarter continued through the second quarter despite a rebound in economic activity.

The Barclays U.S. Aggregate bond index returned 2.04% during the second quarter. Within fixed income, long Treasurys offered the best returns. The 30-Year Treasury bond returned 5.24% during the second quarter. The yield on the 30-year bond fell from 3.56% to 3.34%. Money also flowed into emerging market debt which offered a 4.8% return for the quarter.

Accommodative central bank policies made investors confident that rates would stay low for a long time. Other factors that helped bonds included: subdued inflation in the U.S., falling deficits resulting in a reduced supply of Treasurys, and lower rates in the Eurozone made U.S. Treasurys relatively more attractive.

Commodities: Despite Higher Oil Prices, Flat Returns

Geopolitical tensions in Ukraine and Iraq drove prices of oil and precious metals higher in the second quarter. Oil prices rose 4%, while gold and silver prices were higher by 3.4% and 6.8%, respectively. Despite this, the Dow-Jones UBS commodity index, which tracks 22 commodity prices, was flat for the second quarter of 2014. Excess supply of grains and record plantings by farmers hurt the agricultural complex. Corn prices fell 15.3%, soybeans were down 21.2%, and wheat was lower by 17%.

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