

COMMENTARY FROM THE INVESTMENT COMMITTEE  
OF CORAL GABLES TRUST COMPANY

*2ND QUARTER 2014*

**Q2 – 2014 OVERVIEW**

The winter weather chill that stalled the U.S. economic growth progress in its tracks quickly became a thing of the past as investors grew optimistic about the future. Data releases over the quarter generally pointed to an improvement in economic growth. The unemployment situation gradually improved in June with the unemployment rate dropping to 6.1% after holding at 6.3% for the April/May period. The April jobs number was revised higher reaching the 300,000 level. Housing was a bright spot in May with new home sales rising 18.6%. At the same time the consumer confidence indicator came in at 85.2 for May which is the highest level since January 2008. The S&P 500 Index returned 5.23% for the second quarter courtesy of the improving economic backdrop and accommodative monetary policy. This quarter marked the sixth consecutive quarterly gain in the index. The Dow Jones Industrial Index produced a modest gain of 2.83% and the technology-heavy NASDAQ index finished the quarter with a strong 5.31% gain. The FED announced another \$10 billion reduction in its tapering program during their June 18<sup>th</sup> meeting. It was an uneventful announcement as the FED remains committed to ending the tapering program by the end of the year. Across the pond, international equities produced positive results as the ECB announced bold steps to inject further liquidity into its economy and banking system. Developed equity markets, as measured by the MSCI EAFE Index, returned 4.09% during Q2 while the MSCI Emerging Markets Index turned in a surprising return of 6.60%.

In the bond market initial concerns of a longer lasting economic slowdown coupled with geopolitical overhang helped keep a bid under Treasuries. The 10-year treasury started the quarter at 2.73% and finished at 2.53% due to a rally across the board. The Barclays US Aggregate Index returned 2.04% during Q2 surprising the bond market bears. High-yield continues to be a popular area for investors seeking yield. The Barclays U.S. Corporate High-Yield Bond Index returned 2.41% for the quarter. The ECB announcement in June to provide more monetary support caused a rally in foreign bond markets. The German 10-year rate fell to a low of approximately 1.25% on the back of the ECB

announcement. The appetite for fixed income spread to developing bonds as emerging market fixed income returned 5.81% as measured by the JPMorgan Emerging Markets Bond Index.

As the second half of 2014 gets underway, bond yields are primed to slowly increase as economic improvement continues and the debate unfolds regarding the timing of the first interest rate increase projected sometime in 2015.

#### ASSET ALLOCATION SUMMARY

During its April through June 2014 meetings, the CGTC Investment Committee reaffirmed its asset allocation for Balanced Model Portfolios as 55% Equities, 40% Fixed Income and 5% Cash. The discussions focused on the current opportunity set of global equities particularly US equity valuations vs. foreign valuations. The members of the Committee agree that while valuations in the US equity markets are at, or near, full valuation there may be more opportunity in foreign equities. The Committee will look to increase its foreign equity weight over the next couple meetings. Within fixed income, conversations have revolved around valuations in the high-yield arena. We currently have a 10% weight within fixed income in this asset class and are comfortable with our positioning given somewhat stretched valuations. We expect to have conversations with you in the coming months to discuss our positioning on both equities and fixed income for the remainder of 2014.

#### NOTABLE MANAGER PERFORMANCE

Based upon year-to-date performance as of June 30, 2014, we are very happy with the realized outperformance of many of our managers versus their respective benchmarks:

Loomis Sales Investment Grade	6.55%	Morningstar Intermediate-Term Bd.	3.67%
Doubleline Emerg Mkts Bond	9.09%	US Emerging Mkts Bond	6.42%
Dodge & Cox International Fund	8.95%	Morningstar Foreign Large Blend	4.81%
BMO Pyford International Fund	7.94%	Morningstar Foreign Large Blend	4.81%
Vanguard REIT ETF	18.01%	US Real Estate	17.09%
T. Rowe Price Mid-Cap Fund	6.72%	Morningstar Mid-Cap Growth	4.52%
BlackRock High Yield Bond	5.87%	Morningstar High Yield Bond	5.70%
JP Morgan Alerian MLP ETF	15.50%	S&P 500	7.14%

We look forward to speaking with all of our clients regarding our views and the performance of their respective portfolios, and we thank you for your continued confidence in our team and our firm. For additional information or questions, please contact Mason Williams, CIO, at 786 497 1214, or [mwilliams@cgtrust.com](mailto:mwilliams@cgtrust.com)

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