LOCUST CAPITAL

Dear Friends: April 4, 2014

1st Quarter 2014 Recap

The global markets demonstrated strong resiliency during the first quarter of 2014. Many geopolitical and weather related events threatened to erase the gains of 2013 but the markets continued to prevail as evidenced by the S&P 500 Index reaching a new all time high on April 2nd! Despite this recent milestone, we know that global markets can be volatile as witnessed in the 1st Quarter.

Index	Index Close	Q1 Price Return (%)	12 Mo Price Return (%)
S&P 500	1,872.34	1.30%	19.32%
DJIA	16,457.66	-0.72%	12.89%
NASDAQ	4,198.99	0.54%	28.51%
Barclays Aggregate Bond	107.91	1.39%	-2.55%
MSCI Europe-Australasia-Far East	67.20	0.15%	13.94%
MSCI Emerging Markets	41.01	-1.89%	-4.12%

In January we saw a steep decline in the equity markets as both the domestic and international equity markets quickly lost over 5% of their value in fewer than 10 days. News out of China of slowing manufacturing strained the markets and pushed investors towards bonds and less risky assets. This slowdown in China was not limited to January as both manufacturing and GDP data declined throughout the quarter finishing at their lowest level since September of 2012.

Pain in the emerging markets was not limited to China. India reported anemic growth ahead of its upcoming potentially controversial elections. This coupled with Brazil's riots, high inflation, and slowing growth caused the MSCI Emerging Markets Index to fall in the 1st quarter (-1.89%), continuing its downward trend from 2013.

Developed Asian economies are also struggling as evidenced by Japan's recently increased sales tax (from 5% to 8%, then 10% in 2015) and the unsuccessful implementation of **"**Abenomics**"** which has analysts anticipating a reduction in future spending and growth.

After a successful winter Olympics in Russia, the Crimean peninsula emerged as the top story in the news. Uncertainty over Russia's intervention in the small coastal region of Ukraine and a subsequent reaction from the United States and EU threw the markets into turmoil. The potential for conflict in the region (specifically related to a possible U.S. /Russia engagement) added to the market volatility into March.

Domestically, news was slightly more positive and stocks began to rebound in February. This rise coincided with the inauguration of the new Fed Chairman, Janet Yellen, who will serve as the head of the central bank for the next 4 years. Despite the change in leadership, there has been no indication of a shift in policy from that of former chairman Bernanke. The schedule of tapering has been consistent throughout the 1st Quarter with minimal concerns that it could accelerate. The key takeaways from Yellen's first few addresses are that the Fed still sees slack in the economy and that she is not looking to expedite the schedule of tapering or increase interest rates. This is good news for the U.S., as low interest rates and easy access to credit are contributors to a growing economy.

Additional positive news out of the U.S. for the quarter included: the upward revision of 4th quarter GDP to 2.6%, stable unemployment situation, low inflation, strong corporate earnings, positive leading indicators, and market P/E ratios that are on par with historical levels. This upbeat trend was partially dampened by the unexpectedly bad weather that occurred this winter. Both consumers and producers were impacted by the snow in the Northeast and the draught-like conditions experienced further west, which caused a meaningful deceleration in activity. This slowdown was visible in some of the economic data with most analysts reducing their GDP growth estimates for 1st Quarter of 2014.

Overall, markets ended relatively flat for the quarter with bonds outperforming all asset classes, with the exception of REITs.

We are looking forward to spring and hope to have an opportunity to meet with many of you in the coming months.

All the best,

Locust Capital Management, LLC