Undeterred

Amidst a backdrop of positive economic growth and subdued inflation, no amount of economic sluggishness or unrest abroad has, so far, been able to derail the US market's advance. Low interest rates—and the prospect of negative real returns should inflation rise—have convinced many investors to shift a greater portion of their assets to equities. And, the Federal Reserve, having deftly maneuvered through the financial meltdown and ensuing recession, continues to inspire confidence that a well-telegraphed end to its current bond-buying program won't damage the evolving recovery. Even increased tensions around the world have, likewise, had little negative impact on US markets. In fact, the flight of capital into dollar-denominated assets has further reduced long-term interest rates, offering additional support to the Fed's efforts to sustain growth. Can this benign environment continue?

Economic Growth

The US economy rebounded sharply in the second quarter, following the first quarter's dismal showing. Undoubtedly much of the improvement resulted from pent-up demand as harsh winter conditions subsided. ***Overall, data continue to suggest muted, but real, economic growth.*** The domestic job market is gradually improving, despite month-to-month fluctuations. While several recent employment reports fell short of expectations, a significant number of new jobs created were full-time, a positive signal for the broader economy. This development could stimulate future economic growth as full-time employment increases confidence and helps fuel consumer spending.

Interest Rates

With the Fed's current bond-buying program expected to end in October, discussion has shifted to when it will raise short-term interest rates. However, policymakers may move more slowly than most observers expect. The 10-year Treasury yield recently drifted below 2.4% after having started the year above 3%, and inflation has remained below 2% for several years. Both data points suggest a continuing slow recovery and allow the Fed to maintain a low rate policy. ***Investors hoping for a return to higher interest rates to generate greater income from their savings will likely have a longer wait.***

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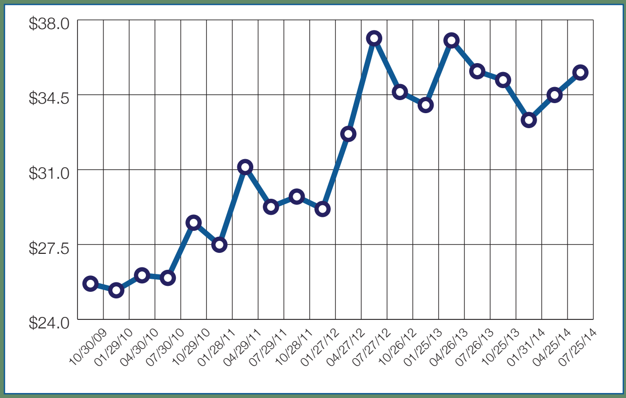
STOCK FOCUS: AT&T

Stock Symbol: T
Market Capitalization: $181B
Dividend Yield: 5.2%
Long Term Growth: 4.8%
P/E (2015 Est.): 12.9x
Return on Equity: 12.3%

AT&T's business has changed significantly over the past several years. With seventy percent of revenue derived from its wireless operations, it is the second-largest wireless company in the US. AT&T's wireline operations serve businesses and consumers in local exchange, long-distance, and broadband data. While long-term growth may be constrained by the company's size and position in the wireless market, AT&T's large, well-supported dividend provides investors with an attractive source of steady income.



Equity Markets

Following the strong stock market of 2013, investors may not have expected much in 2014. However, the S&P 500 has returned 9.5% through the first eight months of the year. The current bull market is one of the longest and most significant in terms of gains in history. It has lasted longer than average (66 months vs. 56 months) and has produced a greater advance (196% vs. 165%). ***While it would seem that the market is at risk of running out of steam, the favorable backdrop of slow growth, low interest rates, and low inflation persists.*** And, equity valuations are currently below prior bull market peaks. With few alternatives, stocks continue to look attractive.

November Elections

Widespread disapproval of both the President and Congress could lead to some surprising outcomes in November. Recent polling suggests Republicans will gain control of both houses of Congress. However, a Republican wave like the one experienced in 2010 doesn't appear to be materializing. Democrats will likely demagogue the recent rash of corporate foreign relocations in order to drive voter turnout. The good news for investors is that midterm election years—and the fourth quarters of midterm election years, in particular—have historically been good for stocks.

Outlook

Ultimately, strategic investment decisions should be based on realistic return expectations, time horizons and tolerances for risk—characteristics unique to each investor. While tactically shifting a greater portion of assets to stocks seems logical in the current rate environment, seemingly benign circumstances can change quickly. Markets have a history of surprising to the downside. ***Should capital preservation become paramount, bonds will better safeguard portfolio value. However, equities appear to offer a superior risk/reward trade off, with the caveat that volatility will someday return to the market.*** An appropriately allocated portfolio of carefully selected, dividend-paying stocks and short-to-intermediate bonds—with a long-term focus—continues to offer the best balance of current income, capital preservation, and growth potential.

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