



## 2014 - The Year Ahead: December 23, 2013

With headwinds fading, we expect U.S. economic growth to pick up over the course of 2014 and into 2015. Federal fiscal policy, the major economic headwind in 2013, will be much less of a drag in 2014. While the economy has continued to rebound from a severe recession, it's far from fully recovered. The large degree of slack should allow the economy to expand more rapidly, without a significant threat of higher inflation. The U.S. economy grew at a healthy 4.1% annual rate in the third quarter, well above the 3.6% estimates, boosting hopes that the recovery is shifting into higher gear after years of sluggishness.

Last week Chairman Bernanke, citing stronger job growth and consumer spending in recent months, announced the highly anticipated QE Taper. Markets cheered the start of tapering, along with the carefully-communicated, gradualist approach and commitment to an extended period of an ultra-low Fed funds rate. Equities rallied, yields on 10-year US Treasuries gradually rose, backing the view that for now we are in a much-looked for 'Great Rotation' scenario. We believe this Great Rotation will lay the ground work for a growing economy and rising equity markets in 2014.

As we look into 2014, here are some of the trends we see that will drive our Texas Capitol Group portfolios.

### **Overweight Domestic Equity**

As we have stated, we expect accelerating growth for the US economy, driven by a pick-up in consumer spending, a further decline in federal spending and a meaningful uptick in capital spending growth. Based on this outlook we will be transitioning our allocation from dividend focused strategies into domestic growth markets.

### **European Recovery**

After years of near universal negativity surrounding Europe, European equities have recently outperformed, supported by reasonable valuations and a cyclical profit recovery. We will continue to add to our European exposure as we see good opportunity for 2014 growth.

### **Oil & Energy Markets**

Although US oil prices have recently sold off, we believe this decline is attributed to a new supply and demand paradigm. Markets are adjusting to the new oil boom being created by the connection of US shale production to the world's largest oil market in the US Gulf Coast. As a result of these significant global implications, we believe energy will be good place to be in 2014.

This list is not exhaustive of all of our thoughts for 2014, but does highlight some of the major trends we see for next year. As we make these adjustments in your portfolios to better position ourselves for 2014, we would like to take the time to thank you all for your continued trust and support throughout 2013.

We wish you all a Happy, Healthy and Prosperous 2014!

Warmest Regards,

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