



MARKET COMMENTARY

May was a good month all around, with equities and fixed income posting solid results. Two of the best performing equity sectors for the month – emerging markets and tech (Nasdaq) – both happened to be the worst performers in April. The M&A boom was beneficial for the tech sector, while EM continues seeing investor interest given relatively low equity valuations and high-yielding debt. Domestic small caps remain the lone weak spot in equities. Bond markets furthered their recovery from 2013 but telegraphed economic weakness as Q1 growth estimates declined and inflation remains stubbornly out of sight. Interest rates fell across the board, with the US 20yr Treasury price index hitting an all-time high.

MARKET NEWS

- Corporate M&A is off to its fastest start in at least 20 years, with \$638 billion in deals announced YTD; this has fueled equities, as the stock of merger targets has risen on average 18% the day after the announcement (WSJ)
- Q1 GDP was revised to -1.0%, as business spending decreased and home building was negatively impacted by the cold winter; however, growth has picked up in March/April and is estimated to average 2.5%+ for the rest of the year
- Q1 earnings season is almost over, and there has been notable pickup in corporate confidence and indications of increased capital expenditures; S&P 500 earnings are on track for 6.4% YOY growth (J.P. Morgan)

INDEX RETURNS & MARKET LEVELS^{1, 2}

	Description	Month	3 Months	YTD	1yr
Equities					
S&P 500	<i>U.S. large cap</i>	2.35%	3.97%	4.97%	20.45%
Russell 2000	<i>U.S. small cap</i>	0.80%	-3.77%	-2.02%	16.79%
MSCI EAFE	<i>Non-U.S. developed</i>	1.62%	2.44%	3.78%	18.04%
MSCI EM	<i>Emerging markets</i>	3.49%	7.02%	3.39%	4.27%

Fixed Income					
Barclays U.S. Aggregate	<i>U.S. core inv. grade</i>	1.14%	1.82%	3.87%	2.71%
Barclays Municipal	<i>U.S. municipal</i>	1.29%	2.68%	5.91%	3.05%
BofAML High Yield Master II	<i>U.S. sub inv. grade</i>	0.99%	1.93%	4.74%	7.93%
JPMorgan EMBI Global TR	<i>Emerging markets</i>	3.20%	6.13%	8.45%	4.84%

Alternatives					
HFRX Global Hedge Fund	<i>Hedge funds</i>	0.45%	-0.51%	0.83%	2.92%
Alerian MLP	<i>MLPs</i>	3.39%	9.37%	9.82%	18.36%
S&P U.S. REIT	<i>REITs</i>	2.39%	6.40%	16.35%	9.79%
DJ-UBS Commodity TR	<i>Commodities</i>	-2.87%	-0.10%	6.45%	2.50%

U.S. Economic Measures		
U.S. GDP ³		-1.0% (Q1 2014, second est.)
CPI-U ex Food & Energy ⁴	<i>"Core" inflation</i>	1.8% (4/30/2014)
Unemployment Rate		6.3% (4/30/2014)

	Levels		
	5/30/2014	12/31/2013	5/30/2013
Rates			
2yr U.S. Treasury	0.37%	0.38%	0.31%
10yr U.S. Treasury	2.48%	3.04%	2.13%
3mo LIBOR	0.23%	0.25%	0.27%
Prime Rate	3.25%	3.25%	3.25%
30yr Mortgage Fixed	4.31%	4.72%	3.90%

Commodities			
Gold (\$/oz.)	1,251	1,205	1,414
Copper (\$/MT)	6,996	7,395	7,246
Oil-WTI (\$/barrel)	102.71	98.42	93.61
Corn (\$/bushel)	4.58	4.10	6.74

Currencies			
Euro (\$/€)	1.36	1.38	1.31
Pound (\$/£)	1.68	1.66	1.52
Jap. Yen (¥/\$)	101.74	105.11	100.93

Notes: 1) Sources: Bloomberg, J.P. Morgan Asset Management, Morningstar, Hedge Fund Research, Bureau of Labor Statistics, Bureau of Economic Analysis. 2) Data as of the date of this report unless otherwise noted. 3) U.S. GDP measures the percentage change during the referenced quarter as published by BEA. 4) Consumer Price Index for All Urban Consumers: U.S. City Average, All Items Less Food and Energy is based on 12-month percent change as published by BLS.

Disclosures: This material is provided for informational purposes only and does not constitute an offer or solicitation by HFS, or its subsidiaries or affiliates, to invest in these indices or their constituent products. The data contained herein are from referenced sources which HFS believes to be reliable. This information discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. The views expressed are those of HFS. They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm. Investing involves a high degree of risk, and all investors should carefully consider their investment objectives and the suitability of any investment. Past performance is not necessarily indicative of future results. All data is as of the date of this report unless otherwise noted.

Investment Team:

John Howard (*Chief Investment Officer*)
 (214) 346-0789
 john.howard@howardfs.com

Stephen Howard (*Private Markets Head*)
 (214) 239-0850
 stephen.howard@howardfs.com

Will Gray, CAIA (*Public Markets Head*)
 (512) 828-7015
 will.gray@howardfs.com

Randall Horton (*Public Markets Analyst*)
 (214) 239-0883
 randall.horton@howardfs.com

About HFS:

Howard Financial Services, Ltd. is an SEC-registered investment adviser, founded in 1994, that provides comprehensive wealth management services to individuals, trusts, businesses, and family offices. HFS delivers a coordinated solution that spans investments and planning, tailored to the unique financial needs of each client. HFS also operates an asset management division that has invested over \$400M of equity capital since 2002 in proprietary offerings focused on real estate, hedge funds, and other alternative investments.

Offices:

DALLAS
 8350 Meadow Road, Suite 181
 Dallas, TX 75231

AUSTIN
 912 W. Martin Luther King Jr. Boulevard
 Austin, TX 78701