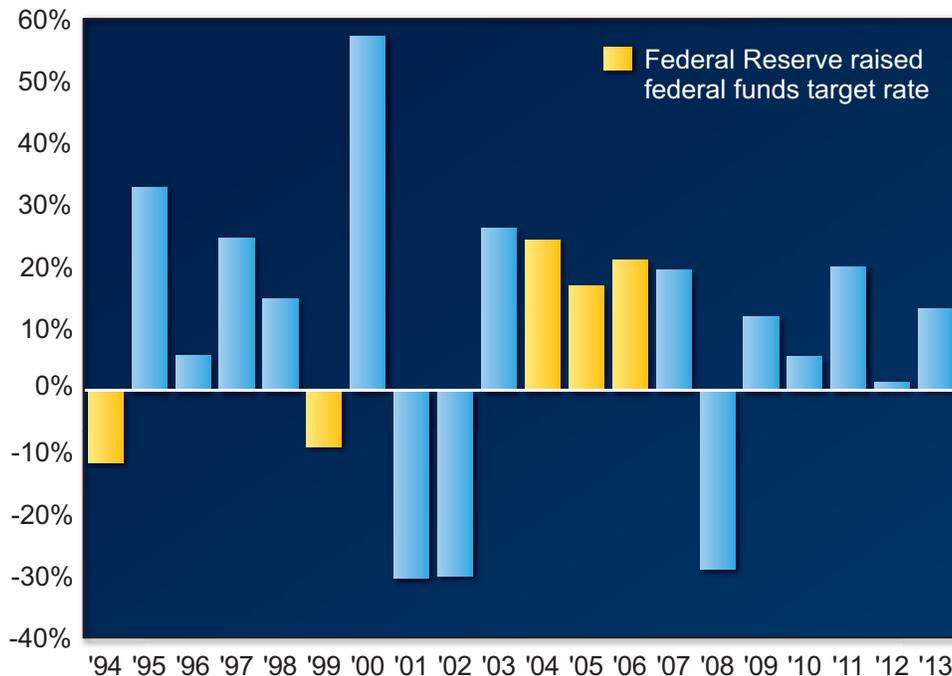


The Fed Provides The Real Juice For Utilities

S&P 500 Utilities Index Annual Total Returns



Source: Bloomberg.
Past performance is no guarantee of future results.

View from the Observation Deck

1. The S&P 500 Utilities Index is the top performing major sector so far in 2014. Year-to-date through 5/19, the index posted a total return of 10.21%, compared to 2.80% for the S&P 500.
2. We believe that some investors have shifted capital to utilities in an effort to get a bit more defensive in the current climate, due in large part to the 0.1% GDP growth rate posted in the U.S. in Q1'14.
3. Utilities are poised to face some significant headwinds whenever the Federal Reserve elects to tighten its monetary policy via raising the federal funds target rate, in our opinion.
4. The Fed has been steadfast in its view that it will not tighten interest rates until warranted. Comments from the Fed suggest it intends to keep the benchmark rate stable at least until 2015.
5. Since 1994, the Fed has raised the federal funds target rate three times (excluding a one-time 0.25% hike in 1997).
6. Those federal funds target rate increases were as follows: 3.00% to 6.00% (2/94-2/95); 4.75% to 6.50% (6/99-5/00); and 1.00% to 5.25% (6/04-6/06).
7. As indicated in the chart, the S&P 500 Utilities Index posted total returns of -11.79% and -9.18% in 1994 and 1999, respectively. That suggests the Fed's actions had a major influence on performance, in our opinion.
8. The returns posted by the index in 2004, 2005 and 2006, however, were positive despite the 425 basis point rise in the target rate.
9. We believe that was a unique outcome based on the fact that utility stocks had already sold off significantly in the bear market following the popping of the Internet bubble (see 2001 and 2002 returns in chart).
10. Investors who own utility stocks should follow the Fed closely from this point forward, in our opinion.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Utilities Index is a capitalization-weighted comprised of S&P 500 constituents representing a specific sector.