Economic and Market

Overview

First Quarter 2014

KC Mathews, CFA
EVP, Chief Investment Officer
kc.mathews@umb.com

UMB

UMB Investment Management appreciates this opportunity to present our information to you.

KC Mathews, CFA
EVP, Chief Investment Officer
kc.mathews@umb.com

Additional contributors:

Eric Kelley
SVP, Managing Director
Investment Management

Will Reese
AVP/Sr Equity Research Analyst
Investment Management

Dan Trgovich, CFA
Equity Analyst
Investment Management

Economics

Bitterly cold temperatures and higher-than-average snowfall negatively impacted economic activity in Q1. Because of this, we expect Q1 growth (real GDP) will be less than 2%. However, we don't expect the inclement weather to derail our growth forecast for calendar year 2014. Late in the quarter as the spring thaw began, a rebound in auto sales, improved factory orders and a surge in hiring tilted the data back in favor of our annual GDP growth forecast — in the 2.6% - 2.8% range.

The consumer is paramount to economic growth, as consumer-related data constitutes 68% of the GDP formula. We estimate that consumer spending in Q1 will be half of the spending level recorded in Q4 of last year. Again, we think weather being the primary culprit. Our theme of the consumer transitioning out of a protracted de-leveraging stage and entering a re-leveraging stage is intact. Consumer credit is advancing and households' debt service obligations are at historical lows due to a reduction in absolute debt burdens and lower servicing costs (low interest rates).

The employment landscape continues to improve and we expect the headline unemployment rate to continue trending lower throughout the year, falling to 6.3% by year end. We are calling for a 10% increase in payroll growth. This improvement in the labor market will support consumer confidence and help bolster a rebound in the aforementioned consumer spending. This reinforces our economic growth targets.

U.S. companies, both small businesses and Fortune 500 companies alike, are financially healthy. Even though capital spending was a bit disappointing in Q1, we anticipate that spending will pick up throughout the remainder of the year. In addition, due to the liquidity on corporate balance sheets and a reduction in pension liabilities, we expect companies to boost dividends, increase share buy-backs and accelerate capital expenditures.

International economies continue to post mixed results. At the beginning of the quarter, emerging markets' currency woes and China's shadow banking system created uncertainty in global markets. The conflict between Ukraine and Russia developed toward the end of the quarter, again shaking markets. Despite the feverish media coverage, we don't believe any of these events is likely to become a major financial market catalysts. However, if tensions cannot be resolved amicably, a spike in commodity costs (such as wheat and oil) is possible, which would negatively impact consumer discretionary spending.

The table below summarizes our 2014 forecasts:

	2014 Year End Target
US Real GDP Growth Rate	2.6% - 2.8%
Global Real GDP Growth Rate	3.30%
S&P 500 Price Target	2,000 - 2,100
S&P 500 Operating EPS Growth	4.00% - 6.00%
Projected 10 Year Treasury Rate	3.25%

Equity Markets

The stock market took a wild roller coaster ride to start the year, finishing Q1 with a gain of 1.8%. At the lowest point in February, stocks were down nearly 6% year-to-date. This selloff was driven by concerns surrounding emerging markets: currency devaluations, China's shadow banking system triggering debt defaults, and slowing regional economic growth. However, these concerns proved short-lived and the market rallied nearly 8% from the February low — once again hitting new all-time highs for the S&P 500. Despite the increased volatility to start the year, the fundamentals supporting market valuations have not materially changed in our opinion. We expect corporate revenue growth to remain healthy, increasing approximately 3% in 2014. We anticipate earnings will expand by roughly 5%, driven by productivity gains, share repurchases and margin expansion. Valuations (stock multiples) remain attractive, given continued low interest rates and a benign inflation outlook.

Our forecast calls for double-digit returns on equities this year. As we predicted, volatility has increased this year and we would not be surprised to see a market correction — defined as a decline of at least 10% — at some point during the year. Importantly, as we approach the Spring/Summer time period, we respect the potential effects of seasonality on the markets (the old adage of "Sell in May and go away") — this timeframe has historically been a more challenging time for stocks. Additionally, we are approaching a period in the Presidential election cycle that is often tumultuous for the market. Regardless of these potential challenges, long-term investors are generally rewarded for being patient throughout corrections and using them as buying opportunities.

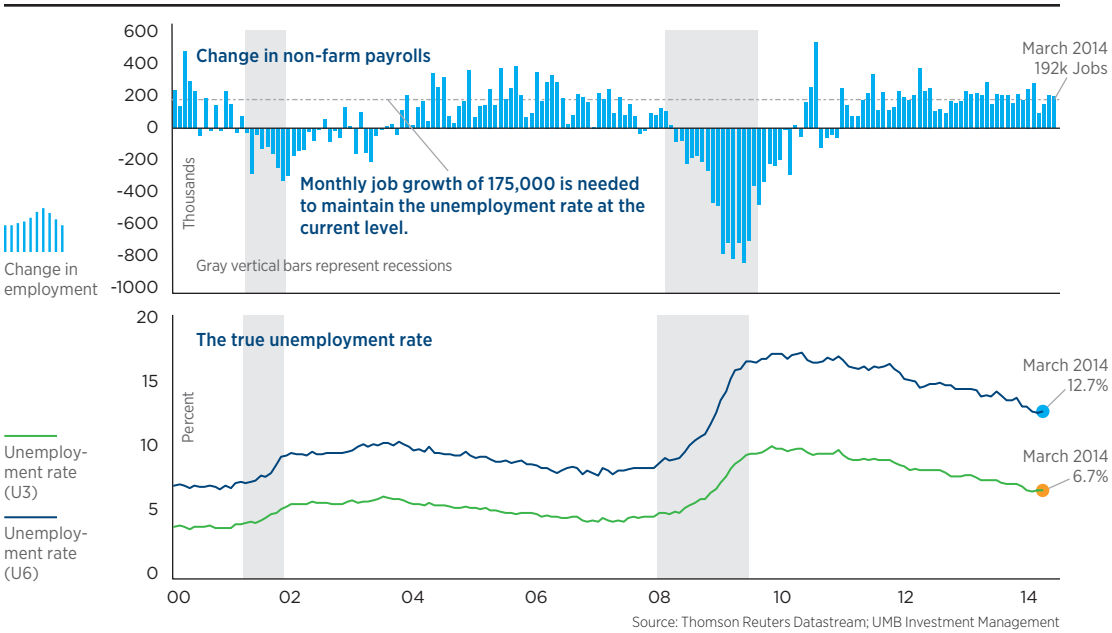
Our year end price target range for the S&P 500 is 2,000-2,100. We calculated our target using our 2015 earnings estimate of $120 on the S&P 500 and by applying a price earnings multiple of 17 equaling 2,040.

Fixed Income Markets

The Fed initiated tapering for quantitative easing (QE) in January, setting off on a path of reducing bond purchases by $10 billion per month. This would result in QE being completely wound down by year-end 2014, if nothing disrupts the economic outlook. Despite this new plan, economic uncertainty led to a modest "risk off" cycle, which has driven long rates down over the course of the quarter. Conversely, Chairman Yellen's first turns in front of the microphone resulted in somewhat hawkish commentary, which caused short-intermediate rates to rise. The ultimate effect was a "flattening" of the yield curve, where short rates rose and long rates fell. This is a trend that typically occurs at the end of a long rising-rate cycle, certainly not at the beginning of one. Regardless of its strange timing, the rate movement caused longer-maturity indices to outperform short indices during the quarter, a trend that we believe was a one-time adjustment to new Fed leadership and do not see continuing throughout the year.

We started the year at 3% (10-yr Treasury rate) and forecasted that 2014 would see rates rise further, ending at 3.25%. However, thus far longer-term rates have moved steadily downward — ending March at 2.73%. Oddly, this was our target for year-end 2013, so perhaps the Q1 movements simply corrected the dramatic rate changes experienced during Q4 2013. Despite the unusual movements during the first quarter, we expect rates to continue on a modest upward trend throughout the remainder of the year, closing at 3.25%, but we still foresee positive returns for the calendar year. If economic growth improves enough to continue to support Fed tapering, we expect the Credit markets to again deliver significantly better returns than the other bond market sectors.

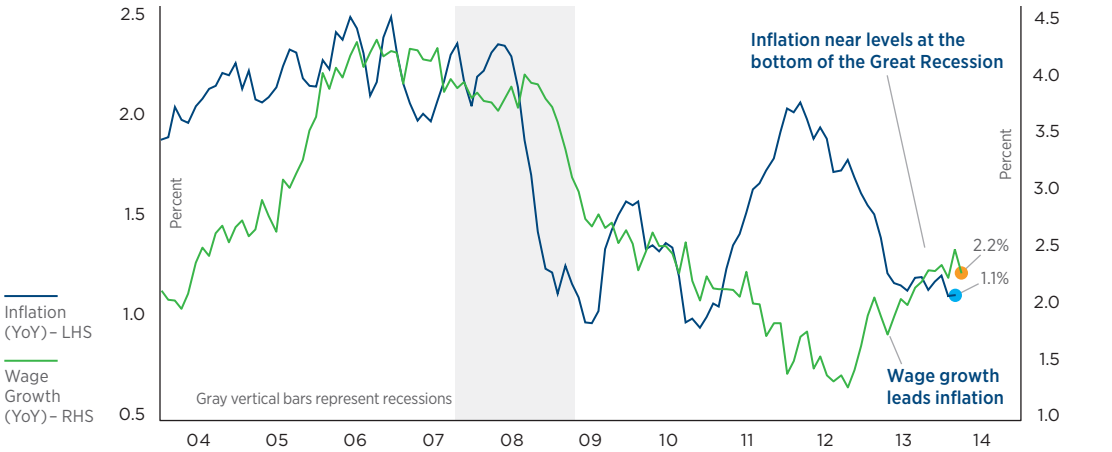
Employment



Source: Thomson Reuters Datastream; UMB Investment Management

- Headline unemployment continues to improve. Unemployment in March stands at 6.7%. Part of the improvement was due to an historic low participation rate driven by a large number of retirees.
- We anticipate unemployment will be at 6.3% by the end of 2014. Payroll growth will average 200,000 jobs per month this year — an increase of 10%.
- The quality of jobs remains a concern. There are too many marginally employed workers. The (U6) remains stubbornly high at 12.7%.
- The improved employment landscape will support consumer confidence and should accelerate economic growth.

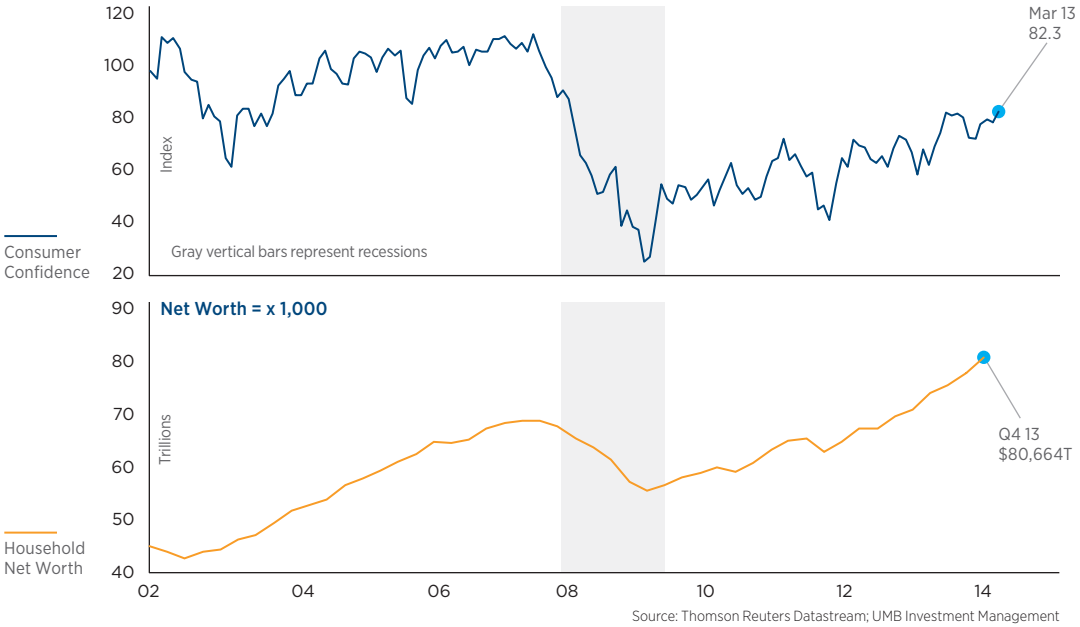
Inflation (PCE) and Wage Growth



Source: Thomson Reuters Datastream; UMB Investment Management

- The Fed's measure for Inflation (core PCE) is well below its long-term "target" of 2%. Current core inflation, excluding food and energy, is at 1.1%.
- PCE has been in a steady downward trend since the beginning of 2012. We think inflation is bottoming and will move higher over the next two years.
- We are watching wage growth, which is a building block of sustainable inflation. Wages have increased modestly, but due to the excess capacity in the global economy, we do not expect inflation to be a threat in 2014.

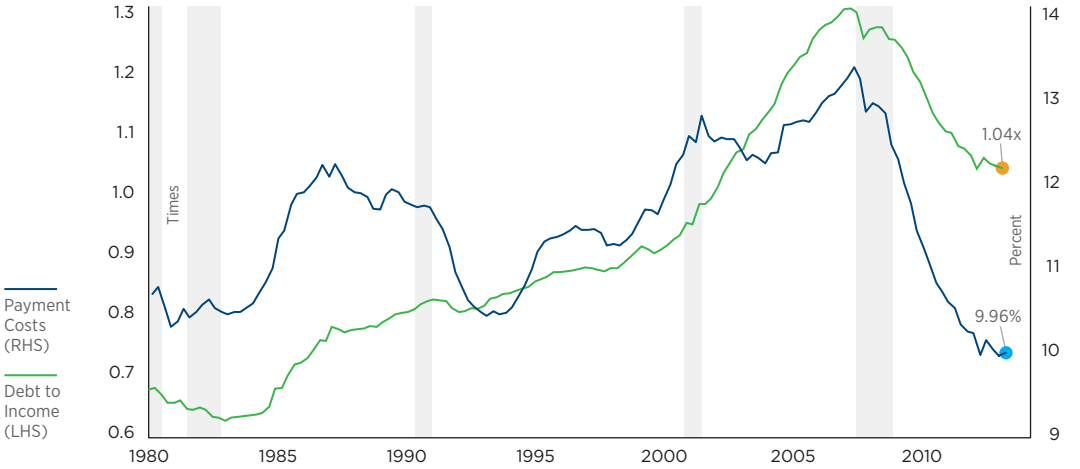
Consumer Spending



Source: Thomson Reuters Datastream; UMB Investment Management

- Housing starts lead to job creation. Each new home under construction creates three new jobs. We expect roughly 1.1 million new home starts in 2014.
- Primary drivers of housing starts are consumer confidence and the wealth effect. Consumer confidence recently hit a 5-year high.
- Consumers' net worth is at an all-time high due to higher home and stock prices. We expect double-digit increases in both variables this year.
- Housing is important to economic growth. We anticipate residential investment will add 0.5% to GDP.

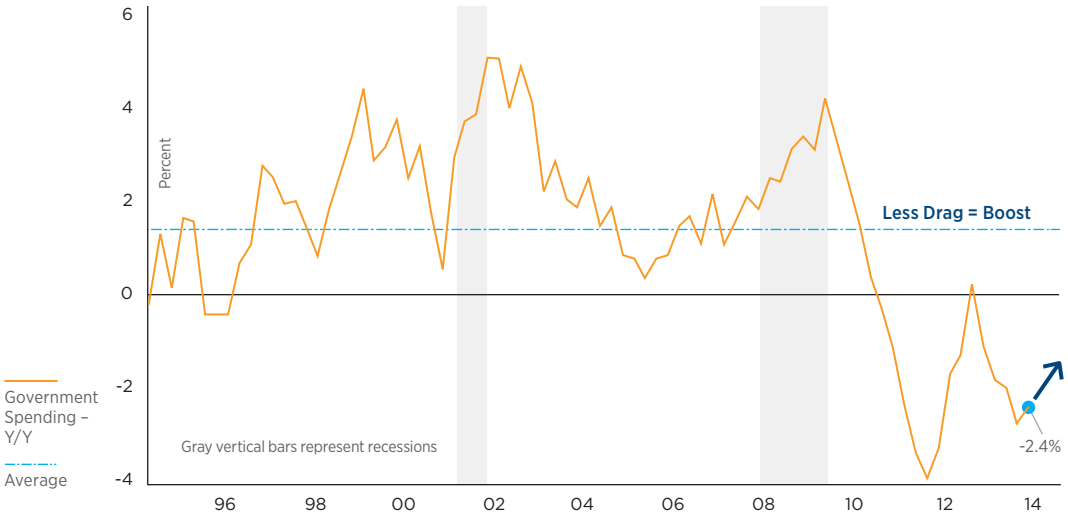
Consumer Deleveraging



Source: Thomson Reuters Datastream; UMB Investment Management

- Debt has become less of a burden to consumers due to debt reduction and lower interest rates.
- Debt payments as a percentage of disposable income are the lowest we have seen in 30-plus years, which will leave more income for consumers to spend.
- Additional discretionary income supports accelerating economic growth. A potential positive wildcard is whether the consumer re-leverages its balance sheet and increases consumption.

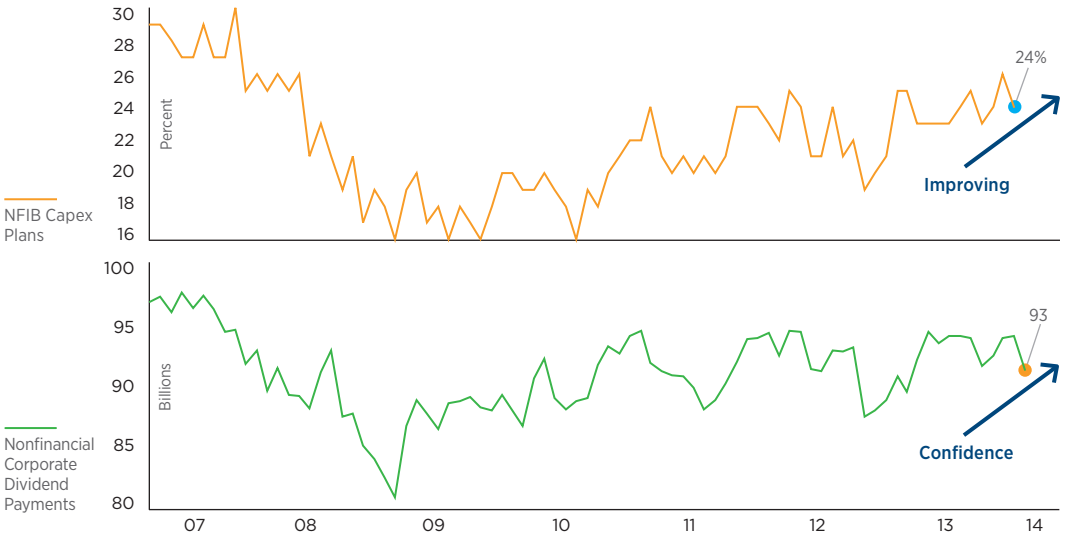
Government Spending



Source: Thomson Reuters Datastream; UMB Investment Management

- The government has been a significant drag on the economy over the last three years.
- While federal spending has been negative recently (Sequestration), it will be "less bad" going forward (recent Budget revising Sequestration) which is positive for GDP.
- The financial position of state and local governments has vastly improved due to increasing tax receipts, thanks to rising home values and more people working.
- After years of being a drag on GDP, the government sector as a whole could contribute to GDP in 2014.

Corporate Health



Source: Thomson Reuters Datastream; UMB Investment Management

- Corporate America is healthy. We expect companies to invest in equipment and return capital to shareholders. Capital expenditures (capex) continue to increase.
- Small business, the backbone of America, plans to spend more. The NFIB capex plans have trended higher since 2009.
- Dividend hikes and share repurchases will bolster stock prices, increasing consumer confidence.
- The improved health of Corporate America supports our forecast of an improving economy.

Earnings and Valuation Drive the Stock Market

Corporate Profits

Source: Thomson Reuters Datastream; UMB Investment Management

- Corporate earnings are the lifeblood of the stock market. We believe economic conditions are favorable for continued earnings growth.
- We expect 5% EPS growth in 2014, driven by our GDP forecast and expectation for slight margin expansion and continued high levels of share buyback activity.
- Earnings drive stocks prices over time. As earnings continue to trend higher, stocks should follow. The earnings backdrop supports our double-digit return expectation for stocks in 2014.

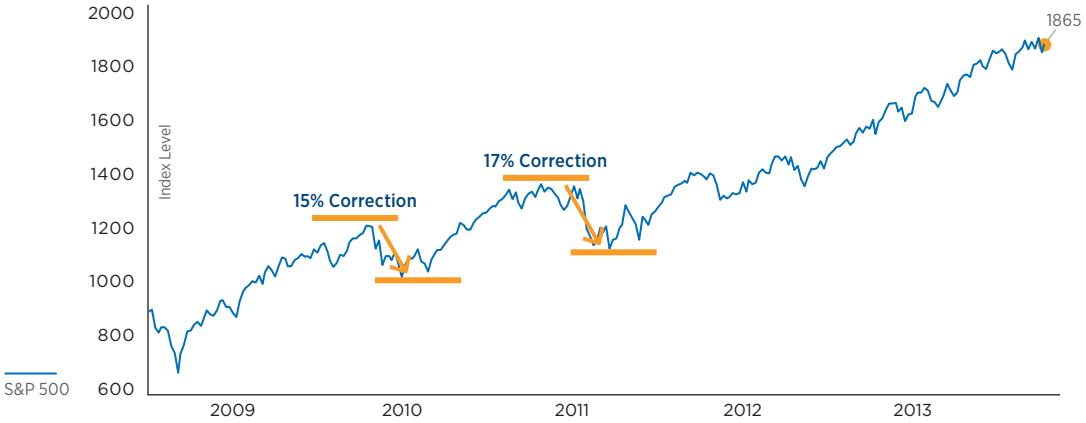
Valuation: S&P 500 Forward Price to Earnings Ratio

Source: Thomson Reuters Datastream; UMB Investment Management

- Valuation, as measured by the forward P/E ratio, indicates how much investors are willing to pay for every dollar in earning.
- Valuations on a P/E basis are in line with historical averages at just above 15x.
- In a low interest rate and low inflation environment, the S&P 500 tends to trade at 17-20x earnings.
- We expect multiple expansion in 2014. This supports our year-end midpoint price target on the S&P 500 of 2,040.

Risks to the Stock Market

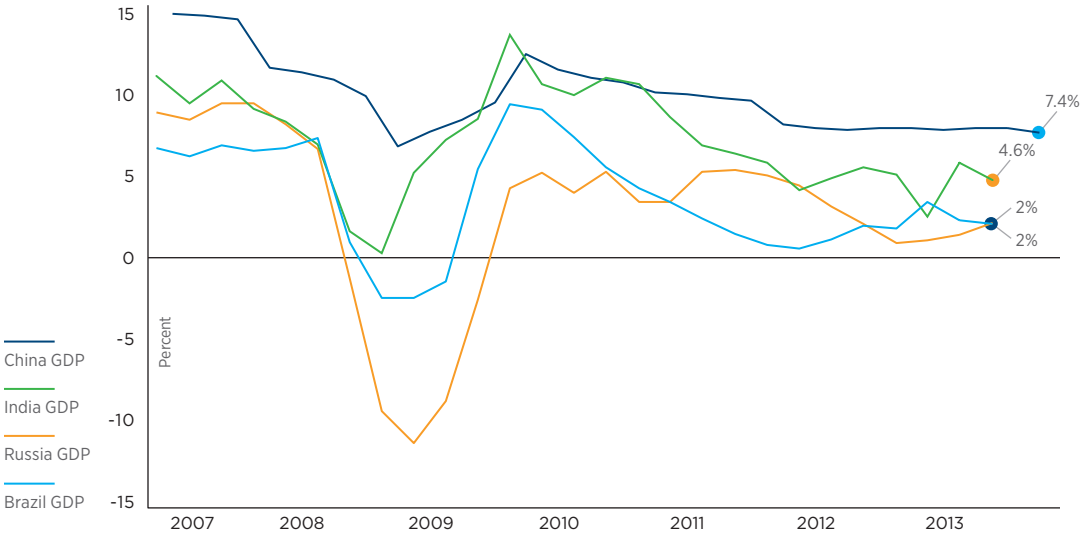
Stock Market Corrections



Source: Thomson Reuters Datastream; UMB Investment Management

- Stock market corrections are a normal and healthy occurrence during a bull market.
- 2013 was a year of exceptionally low volatility. We have not experienced a correction in more than a year and a half. We saw two meaningful corrections in 2010 and 2011.
- With the Fed tapering its bond purchase program (QE), market volatility should increase in 2014.

International Economies



Source: Thomson Reuters Datastream; UMB Investment Management

- International economies may pose a headwind for stocks in 2014 due to slowing growth and geopolitical threats.
- The BRIC economies (Brazil, Russia, India and China) have been slowing over recent years.
- This is important as many large U.S. multinational firms generate substantial revenues in these countries.
- If the Russia/Ukraine conflict escalates, global commodity markets may be impacted, which has negative implications for consumer prices (gasoline and wheat).
- At this point, we do not think the headwinds in emerging markets are likely to cause a global economic slowdown.

U.S. Equity Sector Performance and Growth versus Value

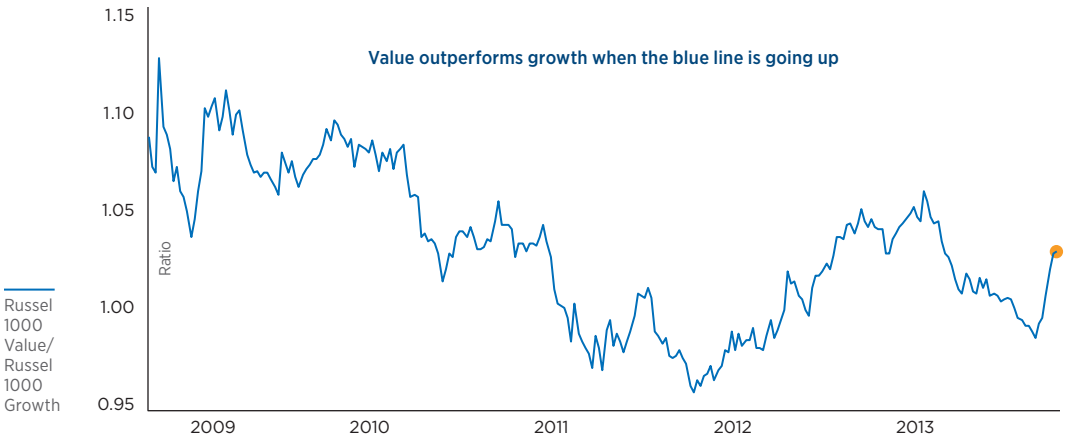
S&P 500 Year-to-Date Return

	Total Return % as of 3/31/14					
Index followed by sectors	1 Month	3 Month	YTD	1 Year	3 Year	5 Year
S&P 500	0.84	1.81	1.81	21.85	14.63	21.13
Utilities	3.38	10.09	10.09	10.28	13.78	14.90
Health Care	-1.27	5.81	5.81	29.24	23.47	21.63
Materials	0.81	2.86	2.86	23.29	8.63	19.95
Financials	3.22	2.61	2.61	24.87	12.96	22.34
Technology	0.27	2.28	2.28	25.59	14.27	21.40
Energy	2.37	0.78	0.78	14.40	5.72	16.41
Consumer Staples	2.29	0.50	0.50	10.65	15.99	18.58
Telecommunications	4.82	0.47	0.47	2.32	10.31	14.45
Industrials	0.88	0.14	0.14	27.26	14.06	25.59
Consumer Discretionary	-2.76	-2.80	-2.80	24.00	20.41	29.11

Source: Bloomberg

- Despite emerging market fears and geopolitical tensions (Ukraine/Russia), the S&P 500 rose 1.81% in the first quarter of 2014.
- Utilities have led the charge year-to-date as the 10-year Treasury yield has decreased and investors have flocked to safe-haven sectors.
- In 2014, we continue to expect an environment where active sector and stock selection will be critical to performance.

Value versus Growth

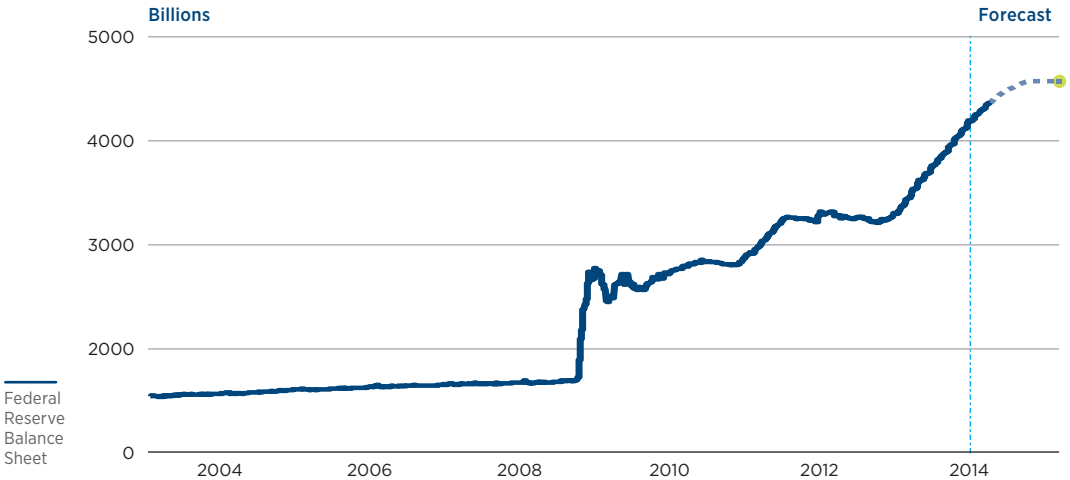


Source: Thomson Reuters Datastream; UMB Investment Management

- Growth stocks typically trade at higher than average P/E ratios while value stocks have lower valuations.
- Growth stocks tend to do better than value stocks when economic growth is scarce and interest rates are low.
- Recently, value stocks have sharply outperformed growth stocks.
- We expect value to outperform growth in 2014 as the economy strengthens and interest rates start to rise.

Fed Quantitative Easing Resulting in Ballooning Portfolio — Will Pressure Yields

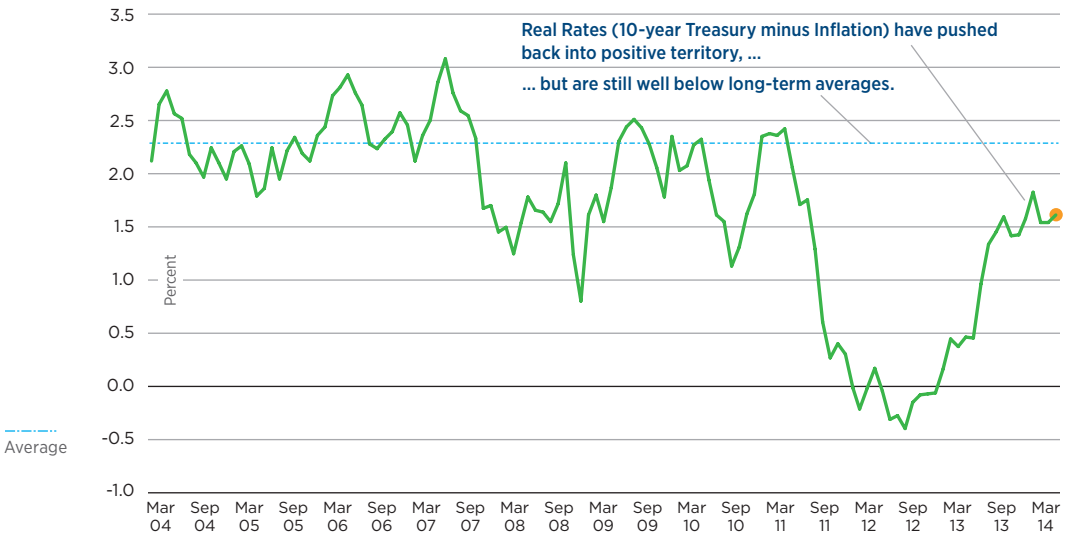
U.S. Federal Reserve Balance Sheet



Source: Thomson Reuters Datastream; UMB Investment Management

- As the economy appears to have gained traction, the Fed has moved into tapering, intending to bring QE to an end.
- The Fed bond portfolio has reached ~$4.0 trillion. Discontinuing purchases (QE) and allowing the portfolio to pay down will have impacts on the bond market and could push rates upwards more rapidly.
- Tapering will ultimately push rates higher, but the upward move should be gradual, as the Fed uses forward guidance to control the normalization of rates.

10-Year Treasury Real Yield



Source: Thomson Reuters Datastream; UMB Investment Management

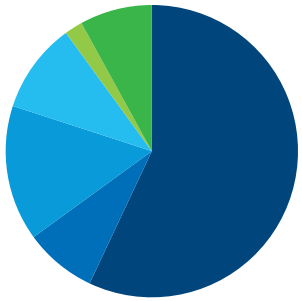
- Real Treasury rates are well below fundamental averages, relative to typical benchmarks.
- Now that tapering of QE has begun, rates have commenced to re-trace the path back to "normalized" levels. 3.25% target for year-end 2014.
- The Fed will likely succeed in ensuring that the move is somewhat orderly, but rates should move up to at least 3.50 – 4.00% (nominal) over a multi-year period.
- Investors must beware of holding long maturities.

U.S. Fixed Income Sector Performance and Weightings

Performance

Index/Sector	MTD Total Return	YTD Total Return
U.S. Treasury Long	0.66	7.10
U.S. Gov/Credit Long	0.75	6.55
U.S. High Yield Long	0.5	5.91
Finance Long	0.24	5.27
Baa	0.4	3.59
U.S. Corporate High Yield	0.24	2.98
U.S. High Yield Intermediate	0.22	2.83
A	-0.05	2.67
Financial Institutions	-0.15	2.07
Aa	-0.07	2.06
U.S. Gov/Credit	-0.11	1.98
U.S. Aggregate	-0.17	1.84
MBS Fixed Rate	-0.33	1.60
Agg Intermediate	-0.30	1.20
U.S. High Yield Loans (Short)	0.32	1.12
U.S. G/C Intermediate	-0.30	1.00
U.S. Tsy Intermediate	-0.41	0.65
Agg 1-3 Yr	-0.09	0.27
Agg 3-5 Yr	-0.45	0.78
U.S. Govt 1-3 Yr	-0.11	0.14

Barclays Intermediate Government/Credit Sector Weights



Treasury	57%
Agency	8%
Industrial	15%
Finance	10%
Utility	2%
Other	8%

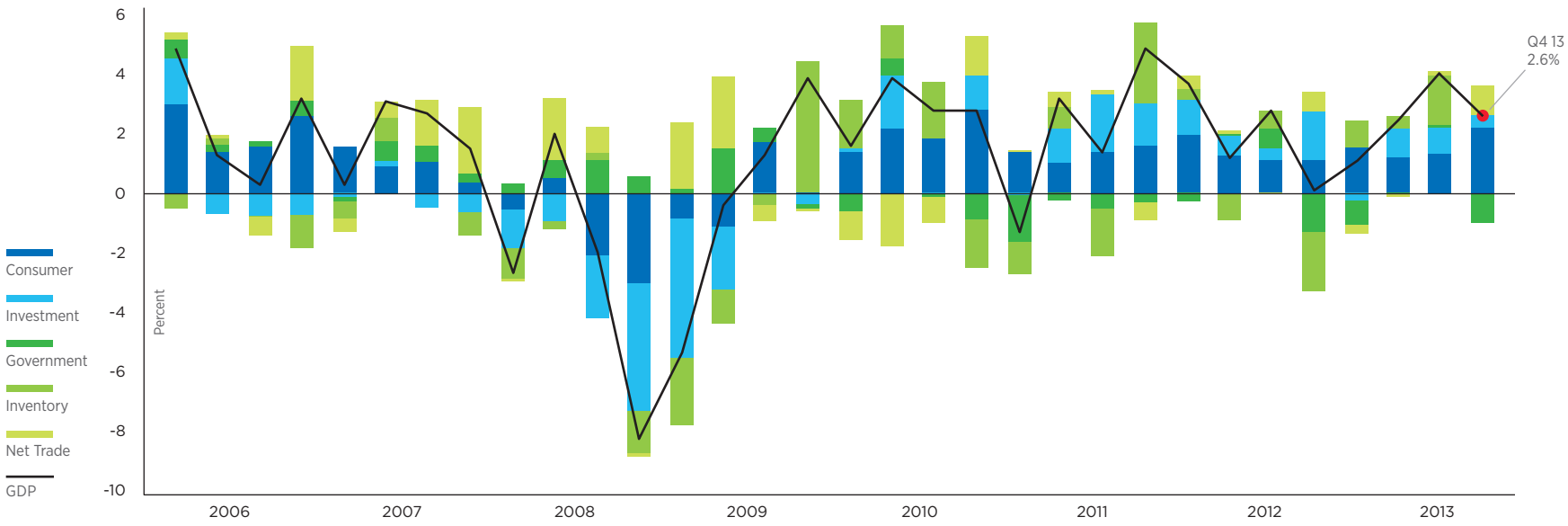
Source: Thomson Reuters Datastream; UMB Investment Management

- The YTD drop in long-term rates drove returns into longer-term indices.
- Credit-based sectors outperformed government sectors.
- Intermediate and short indices lagged for the quarter.
- Despite the slight "risk off" sentiment that drove rates down, the High Yield sectors continued to lead all other sub-sectors of the market.
- Barring a severe economic downturn, the performance of the long-term indices is unlikely to continue throughout 2014.

- The performance of long-duration Treasuries will dominate the returns of the broad indices — likely damaging returns throughout the upcoming normalization of rates. Yields are coming off of multi-decade lows, ensuring that this portion of the market has value only as a deflation hedge.
- Given attractive relative yields in portions of the corporate (and high yield) sector, a strong overweight is likely to continue bolstering incremental returns throughout the upcoming cycle.
- Select mortgage backed securities can be used as a substitute for a portion of the Treasury/agency exposure, helping to enhance yields and dampen volatility.

Real Gross Domestic Product (GDP)

Contributions to GDP Growth



Source: Thomson Reuters Datastream; UMB Investment Management

% Contribution to GDP by Quarter

Component	12-Sep	12-Dec	12-Mar	13-Jun	13-Sep	13-Dec
Consumption	1.2	1.1	1.5	1.2	1.4	2.2
Investment	0.9	-0.4	0.7	1.4	2.6	0.4
Government	0.7	-1.3	-0.8	-0.1	0.0	-1.0
Imports	-0.1	0.5	-0.1	-1.1	-0.4	-0.2
Exports	0.1	0.2	-0.2	1.1	0.5	1.2
Total	**2.8**	**0.1**	**1.1**	**2.5**	**4.1**	**2.6**

Source: Thomson Reuters Datastream; UMB Investment Management

UMB GDP Forecast

Year	Q1	Q2	Q3	Q4	Year
2011	-1.3 (A)	3.2 (A)	1.4 (A)	4.9 (A)	1.8 (A)
2012	3.7 (A)	1.2 (A)	2.8 (A)	0.1 (A)	2.8 (A)
2013	1.1 (A)	2.5 (A)	4.1 (A)	2.6 (A)	1.9 (A)
2014	1.9 (E)	2.9 (E)	2.6 (E)	2.8 (E)	2.7 (E)

Source: UMB Investment Management

DISCLOSURE AND IMPORTANT CONSIDERATIONS

UMB Investment Management is a division within UMB Bank, n.a. that manages active portfolios for employee benefit plans, endowments and foundations, fiduciary accounts and individuals. UMB Financial Services, Inc.* is a wholly owned subsidiary of UMB Bank, n.a. UMB Bank, n.a., is an affiliate within the UMB Financial Corporation.

This report is provided for informational purposes only and contains no investment advice or recommendations to buy or sell any specific securities. Statements in this report are based on the opinions of UMB Investment Management and the information available at the time this report was published.

All opinions represent our judgments as of the date of this report and are subject to change at any time without notice. You should not use this report as a substitute for your own judgment, and you should consult professional advisors before making any tax, legal, financial planning or investment decisions. This report contains no investment recommendations and you should not interpret the statements in this report as investment, tax, legal, or financial planning advice. UMB Investment Management obtained information used in this report from third-party sources it believes to be reliable, but this information is not necessarily comprehensive and UMB Investment Management does not guarantee that it is accurate.

All investments involve risk, including the possible loss of principal. Past performance is no guarantee of future results. Neither UMB Investment Management nor its affiliates, directors, officers, employees or agents accepts any liability for any loss or damage arising out of your use of all or any part of this report.

"UMB" – Reg. U.S. Pat. & Tm. Off. Copyright © 2013. UMB Financial Corporation. All Rights Reserved.

*Securities offered through UMB Financial Services, Inc. Member FINRA, SIPC or the Investment Banking Division of UMB Bank, n.a.

Insurance products offered through UMB Insurance Inc.

You may not have an account with all of these entities.

Contact your UMB representative if you have any questions.

SECURITIES AND INSURANCE PRODUCTS ARE:
NOT FDIC INSURED • NO BANK GUARANTEE • NOT A DEPOSIT • NOT INSURED BY ANY GOVERNMENT AGENCY • MAY LOSE VALUE

UMB®