MARKET PERSPECTIVE

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> *"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."*
> Peter Lynch

IN VIEW:

In spite of a rough first quarter, stocks continued to forge ahead to new highs as we entered the summer months, shrugging off the old adage of "sell in May and go away". The market advance of 7.14% for the first half of the year was achieved with relatively low volatility - giving rise to concerns of an imminent correction in the months ahead. The Standard and Poor's 500 has not had what we would call a significant sell-off (a 10%+ decline) since the second quarter of 2012. Any bad news, regardless of its significance, has the potential to weigh on the markets. And after advancing significantly off the bottom in 2009, valuations have expanded, leaving stocks with the highest valuations the most vulnerable to volatility. After selling off approximately 5% in early January, and repeating another drop of nearly 4% in April, we observed that the greatest volatility was concentrated in the higher-priced sectors, namely internet and biotech stocks. The graph below helps illustrate this point. This supports the case for concentrating our investment focus on value-oriented stocks.

Higher Priced Market Sectors Have the Potential for Greater Volatility
S&P 500 Index, Internet stocks (S5INSSX), Biotech (S5BIOT)

In addition to stressing the importance of our Value bias, large cap stocks advanced ahead of small caps this year by a wide margin. In this scenario, small caps are the higher priced assets as stock gains have far exceeded the pace of earning growth in this sector. Although we are not anticipating a significant market sell-off, the current environment is demonstrating how the market can work as a self-correcting mechanism - bringing back into equilibrium stocks that trade above their fair market value for a considerable amount of time.

Besides digesting the relatively slow growing U.S. economy compared to previous cycles, investors have to weigh in on the geopolitical risks of Middle East instability and tension in Eastern Europe. The resultant potential spike of oil prices could aggravate an already fragile global recovery. These global pressures, coupled with the potential acceleration of the Federal Reserve's timetable of tapering the asset purchase program, could all weigh on markets in the short run. And keep in mind that there is the possibility that the mid-term elections could bring regulatory scrutiny back to the foreground as well. All these factors could negatively impact investor psychology.

The positive case for stocks, however, remains in place based on the recovery of fundamental drivers such as capital spending, hiring and inventory builds. Improved balance sheets, with high interest coverage and low inflation, limit the possibility of an outsized earnings-based correction. The main impediment to our projection of a bullish market environment for the remainder of the year is our earnings outlook of 7.0% growth which may be too modest to support current equity valuations.

While we would not be surprised by a near term correction in the markets, we would expect a resumption of higher market prices by the fall of this year, coincident with positive earnings surprises for the second and third quarters.

CLOSE-UP: The Economic Landscape

In the last week of June, the Bureau of Economic Analysis released its final estimate of Real GDP growth for first quarter of 2014 - negative 2.9%. This compares to growth of +2.6% in the fourth quarter of 2013. While earlier releases had first indicated little growth (+0.1%), and then minus 1.0%, the final revision for the first quarter was a real negative surprise to most economists. Although we had warned our investors of the seasonal slowdown, the impact of the unusual cold weather was far greater than we had expected. The end result was that The World Bank, the I.M.F., and the Federal Reserve all lowered their economic growth estimates to a 2.0% growth rate from 3.0% for 2014.

Since almost all economic statistics have been quite robust since March, economic forecasts for the most part have estimated growth of 3.0% or higher for the balance of the year. The bounce back to the 4.0% level for the second quarter just reported confirms that 3.0% forecast is achievable. Of course the financial markets shrugged off these developments emphasizing a resumption of growth until the last days of July. Despite the recent correction, the stock market valuations confirm a modest but higher earnings outlook, while bonds have appreciated based on the moderate inflation outlook to date.

The recent composite ISM Index portrayed a much better growth in manufacturing activity in July than suggested by the sluggish "wages and hours worked" numbers in the more recent employment report. The manufacturing Index rose 1.8 points to a three-year high of 57.1, with any number over 50 representing growth. In fact, the index would have been nearly a point higher if not for a sharp pullback in inventories, as the orders, production, and employment gauges all rose to near multi-year highs. Growth remained unusually broad-based by industry. Worth mentioning was a surge in the auto industry activity, as assemblies rose to the highest level since 2003 in seasonally adjusted terms, and confirms that the U.S. recovery remains on course.

However, keep in mind that comments from respondents of the survey (ISM Index) were mixed, as concerns about geopolitical developments and weakness in Europe clouded the positive picture of domestic activity. This was reflected in the export orders which fell 1.5 points to 53, a ten-month low, versus the upside in the overall new orders index. However, we were pleased with the reported results that pointed to much better and broader manufacturing growth in July than the previous employment report.

Other economic headwinds worth highlighting were a weakness of 8.9% in exports, state and local expenditures of minus 1.7%, a 1.8% decline in non-residential fixed investment, and a decline in residential spending of 4.2%. The consumption advance of 1.0% compares to a gain of 3.3% in the fourth quarter of 2013. Retailing was hit hard by the severe weather as was factory output. Since consumption had been strong earlier, so too had inventories been built up to an excessive level. All this was corrected in the first quarter.

One should add that capital spending has been weaker than in previous business cycles, up by a rate of growth of 5.2%, since the recovery began in mid-2009. In the first quarter, capital spending declined by 2.8% versus a gain of 10.9% in the fourth quarter. Corporations had advanced their spending in late 2013 to take advantage of a tax law change that would end accelerated depreciation on equipment spending in 2014. This law change had a major impact on corporate profits which declined by 13.7% in the first quarter. However, when adjusted for the tax change, corporate profits actually declined by only 1.3%, to a level of $1.88 trillion from $ 1.9 trillion.

Looking ahead, employment trends have picked up as layoffs have fallen significantly. Retailing has recovered with auto sales continuing to boom. Manufacturing profits have been particularly strong. Employment costs have been very competitive, with little wage inflation, and energy costs have benefitted from fracking and horizontal hydraulic drilling. Exports have been strong throughout the five year recovery, despite the first quarter decline attributed largely to weather-related transportation costs. In the fourth quarter, exports had advanced by 9.5% before the weather induced weaker first quarter results. Housing statistics have been stronger with May sales of both existing homes and new homes rising 4.9% and 18.6%, respectively. The leading indicators rose 0.5% in May and are up 5.9% year-over-year. Industrial production advanced 0.6% in May and is up 4.3% Y/Y.

Consumer confidence has been exceptionally high with the Conference Board Index at 85.2, a new high for the current business cycle. All this suggests there is still no definitive signal that the U.S. economy is headed into a recessionary period.

The Outlook for the Financial Markets

Retail sales showed a broad based gain in June, pointing to an increase in consumer spending that bolstered the U.S. economic rebound in the second quarter. Unemployment, a major concern of the Federal Reserve, is at a new low of 6.2% as it continues to decline. Full employment is generally regarded as unemployment of 5.3%. All in all, the economy is doing fine against a backdrop of benign inflation. As measured in the first quarter GDP report, inflation was 1.3%, similar to the Federal Reserve's compilation of inflation. The consumer price index (CPI) and purchasing managers index (PPI) are running at 2.1% and 2.4%, respectively, for twelve months through May. Given the geopolitical situation in the Middle East, we are carefully monitoring the price of oil and gasoline, since further increases could damage the economy.

Despite the surprising final revision of GDP growth in the first quarter, coupled with the initial second quarter report of 4%, we held our 2014 forecast of growth to 2.75%. More importantly, however, our twelve month forecast is above 3.5%. These forecasts compare with 1.9% real GDP growth in 2013. Our CPI forecast remains at 2.5% with a gain in corporate profits of 7.0% to include buybacks. Over the past month, given the increasing geopolitical uncertainty and revelation of surprising weakness in the economy during the first quarter, financial markets gave back earlier second quarter gains. Bond prices advanced again in the second quarter with the 10-year +1.7% - rallying in the recent month to yield 2.5%. The S&P 500 Index (1959) is up 6.07% during the second quarter and less so in the foreign markets, up 4.98%, as measured by the Morgan Stanley EAFE Index (1963). While the CRB commodity Index (497) is up only slightly by 0.6%, oil ($104 per barrel) is up 6.1% and gold ($1327 per ounce) has increased by 3.3%. The latter two commodities have risen based on the unrest in Iraq, as sectarian fighting between Shiites and

Sunnis has escalated. The dollar index recently dropped from a four-month high, after U.S. employers added fewer jobs than forecasted in July and reduced speculation that the Federal reserve will move up the pace of interest rate increases forecasted for next year.

Treasury bond spreads narrowed because some of the credit risks related to Puerto Rican finances and the Detroit bankruptcy have dissipated as state and local finances have generally improved. 30-year mortgage yields currently at 4.16% have also stabilized. The tapering of the quantitative easing program of the Federal Reserve of $10 billion per month since January has reduced the program's size to $35 billion per month from $85 billion per month and has had no negative impact on interest rates.

We believe that the Federal Reserve has taken the correct course to reduce the program this year so as to begin a return to a more normal monetary policy. The program since its installation in 2008 saved the country from a probable depression, by providing necessary liquidity as the severe recession took effect. There is however the risk that if quantitative easing continues for too much longer, asset bubbles can form that could exacerbate the next recession. The next change in monetary policy will be the timing of interest rate increases to counter a possible rise in inflation as the economy reaches its capacity limits. Our estimate would be that a short-term rate increase would occur in the second quarter of 2015.

In May, the capacity utilization rate of U.S. industry was at 79.1%. Historically, inflation does not become a problem until the rate reaches 82%. We believe that a capacity expansion is about to begin, as much of the capital stock is old and increased capital spending is needed to prevent inflationary problems. If this takes place, the economic expansion will be lengthened and inflationary risks should be reduced.

IN FOCUS:

AIM's ATTRIBUTION HIGHLIGHTS

Exhibit I

AIM LLC Composite – 1st Half 2014

	Sector Wgt. As % of Portfolio as of 06/30/2014	Relative Wgt. versus S&P 500 Index	1st Half 2014 Total Return of AIM Composite	1st Half 2014 Total Attribution of AIM Composite
AIM Composite			7.12	
Consumer Discretionary	9.1	-2.8	-2.83	-0.14
Consumer Staples	9.7	0.2	2.29	-0.29
Energy	15.3	4.4	19.22	1.01
Financials	18.3	2.3	3.44	-0.32
Health Care	13.9	0.6	7.54	-0.40
Industrials	8.7	-1.8	1.84	-0.22
Information Technology	17.4	-1.4	13.16	0.69
Materials	2.2	-1.3	2.12	-0.17
Telecommunication Services	2.2	-0.2	3.22	-0.03
Utilities	2.1	-1.1	27.15	0.03

Source: Bloomberg

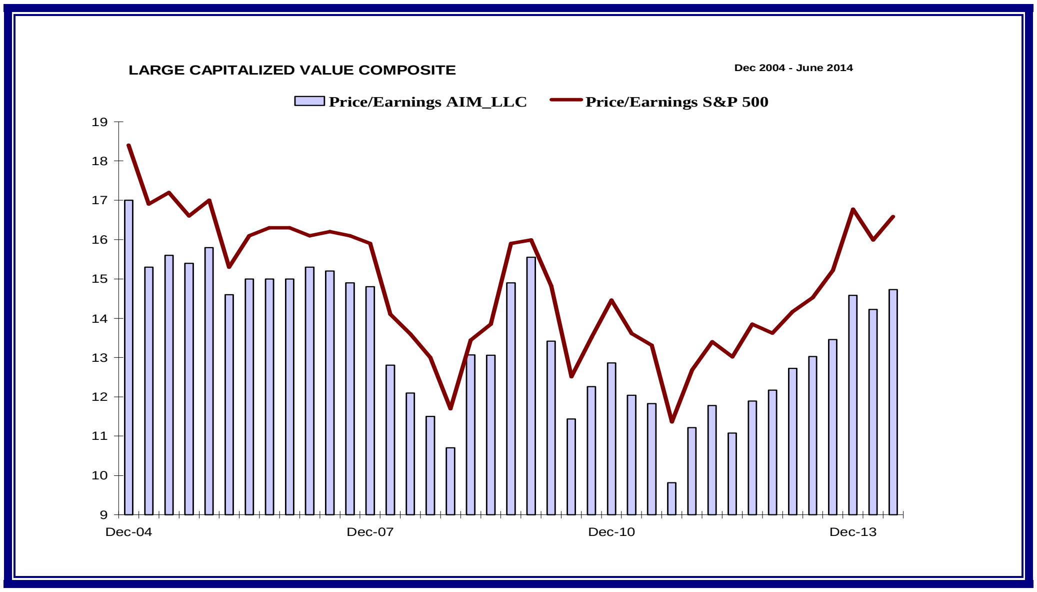
1st Half Sector Performance Summary

- The AIM composite was in line with benchmark S&P 500 performance during the first half.
- Stocks contributing most to performance were Halliburton, Applied Materials, Wells Fargo, Intel, and Devon Energy.
- Stocks contributing least to performance were Conagra, Philips Electronics, Emerson Electric, Lowes, and Regions Financial.

S&P 500 – SECTOR VALUATION CHARACTERISTICS

Exhibit II

P/E Multiples for the S&P 500 Continue to Expand in the 2nd quarter.*



*As mentioned earlier in this piece, when we reviewed the equity markets, although multiples have risen across the board, it is those that are most extended that have the potential for greater volatility.

IN SUMMARY:

Looking ahead, bond interest rates should slowly increase and stock prices - while always subject to corrections - should continue to move higher along with earnings. At 1959, the S&P 500 sells at 16.7 times our $117 per estimate for 2014 and at 15.8 times our $124 per share estimate for 2015. The latter is a 7% advance based on a slight decline in profit margins as wages modestly advance after years of little growth. We continue to believe that the main risks to stock prices emanate from geopolitical risks coming from the Middle East.

Earnings are still on a growth path, consumers are upbeat, and jobs are less hard to get, setting up the second and third quarter for positive earnings surprises. All measures of profitability are on an uptrend, with the long-term growth number at 7%. Earnings continue to provide a tailwind for the stock market.