

Economic & Market Review

~ January 2011 Investment Newsletter ~

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Monthly Summary

The year-end stock market rally continued into the New Year with major stock market indexes delivering low single digit returns in January. Other risk based assets such as commodities, high yield bonds, and real estate also performed well. Emerging markets took a breather, declining low single digits, and municipal securities continued a trend of relative weakness that began last November.

Economic data releases were somewhat mixed but leaned toward the positive end of the spectrum. Economic growth accelerated in the fourth quarter on the heels of improving consumer spending and impressive growth in retail sales. Manufacturing continued to move forward, but passed the baton to the service side of the economy in the home stretch. Unemployment and consumer confidence both improved, but each remain at exceedingly unhealthy levels. Key domestic concerns were state and local finances and a renewed deterioration in housing, which showed price declines in every major market.

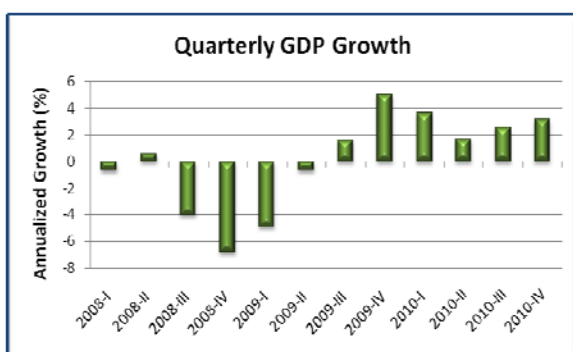
Sovereign debt concerns remained ever present, but largely ignored, while inflationary pressures in developing economies gained heightened attention. Civil unrest in Egypt punctuated the month with a reminder to investors that emerging markets still pose unique risks and challenges.

January's Economic Releases

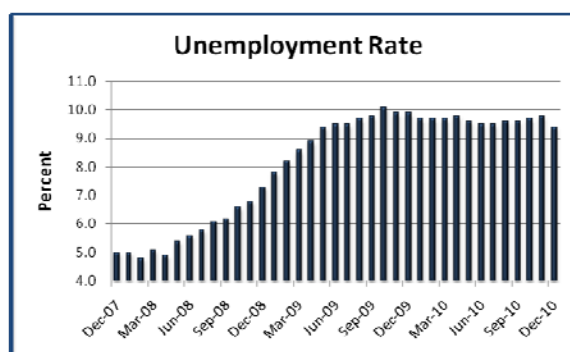
<u>General</u>	<u>Prior</u>	<u>Current</u>
GDP growth	2.6% (Q3)	3.2% (Q4)
Trade balance	-\$38.4 B (Oct)	-\$38.3 B (Nov)

<u>Employment</u>	<u>Prior</u>	<u>Current</u>
Initial jobless claims	403,000	454,000
Continuing claims	3.9 MM	4.0 MM
Nonfarm payrolls	71,000 (Nov)	103,000 (Dec)
Unemployment rate	9.8% (Nov)	9.4% (Dec)
Average weekly hours	34.3 (Nov)	34.3 (Dec)

<u>Consumer</u>	<u>Prior</u>	<u>Current</u>
Consumer confidence index (Conf. Board)	53.3 (Dec)	60.6 (Jan)
Retail sales growth (YoY)	6.0% (Oct)	8.5% (Nov)
Consumer credit	\$7.0 B (Oct)	\$1.3 B (Nov)



Data Source: U.S. Department of Commerce



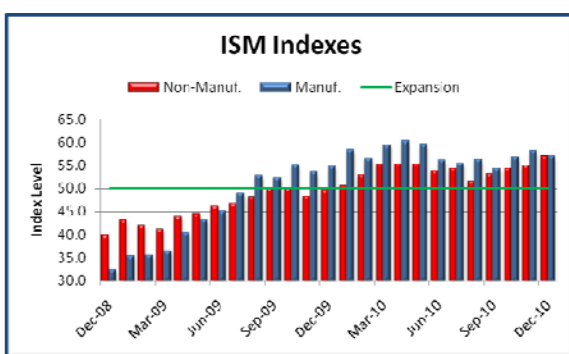
Data Source: U.S. Department of Labor



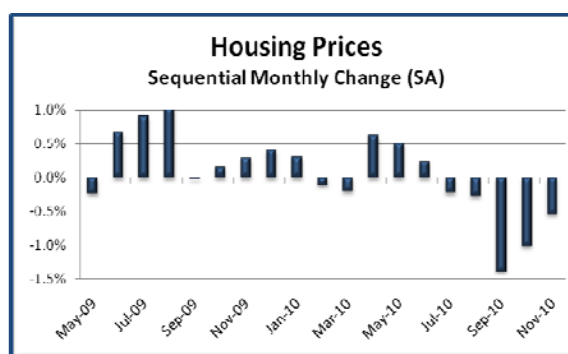
Manufacturing & Service	Prior	Current
ISM manufacturing index	58.2 (Nov)	57.0 (Dec)
ISM non-manufacturing index	56.0 (Nov)	57.1 (Dec)
Durable goods orders growth	-0.1% (Nov)	-2.5% (Dec)
Industrial production growth	0.3% (Nov)	0.8% (Dec)
Capacity utilization	75.4% (Nov)	76.0% (Dec)

Real Estate	Prior	Current
New home sales	280,000 (Nov)	329,000 (Dec)
Existing home sales	4.7 MM (Nov)	5.3 MM (Dec)
Case-Shiller home price index (YoY)	-0.8% (Oct)	-1.6% (Nov)

Inflation	Prior	Current
Consumer price index/Core (YoY growth)	1.1%/0.8% (Nov)	1.5%/0.8% (Dec)
Producer price index/Core (YoY growth)	3.5%/1.2% (Nov)	4.0%/1.3% (Dec)



Data Source: Institute for Supply Management



Data Source: S&P/Case-Shiller

Market Returns

The S&P 500 index gained 2.4% during the month of January. Developed international equity markets, as defined by the MSCI EAFE Developed Markets index, were also up 2.4% for the month. Emerging markets started the year on a down note as the MSCI Emerging Markets index lost 2.7% for the month. Concern over rising inflationary pressures in developing economies was a recurring theme throughout January. Toward month-end, civil unrest in Egypt added further downward pressure on emerging market equities.

In the fixed income market, the Barclays US Aggregate index was up 0.1% for the month and the 10-year U.S. Treasury bond ended with a yield of 3.38%, up slightly for the month. Major fixed income subcomponents performed similarly with the exception of high yield, which performed somewhat better, and municipals, which continued a recent trend of relative underperformance.

Commodities and real estate posted gains of 1.0% and 3.8% respectively.

Disclaimers

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