

Economic & Market Review

~ February 2012 Investment Newsletter ~

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Monthly Summary

Favorable economic data and progress on the European debt front enabled January's positive market momentum to continue in February. The S&P 500 index has doubled from the March 2009 bottom and is up over 25% from the lows of last October. International equity markets were strong for the month and currency gains against the U.S. dollar added to stunning year-to-date gains, particularly in emerging markets.

As illustrated in the following tables, economic releases were nearly universally positive with the notable exception of housing, which remains weak. The labor market continues to improve, retail sales growth accelerated, consumer confidence jumped, and household debt and credit trends are attractive. Manufacturing and service economies reported good numbers and fourth quarter 2011 GDP growth was revised upward to 3.0%.

Acute risks in Europe have receded and Greece is well on its way to a second round of bailout funding. The European Central Bank's December offering of three year, low interest rate loans to European banks dramatically stabilized the debt crisis and helped to contain contagion. A second round of comparable financing, launched as February drew to a close, was highly subscribed and should prove equally calming to the global markets.

The ECB was not the only aggressive central bank during the month. Japan and the U.K. kicked off new rounds of quantitative easing and China lowered reserve requirements for banks. Of course, the Fed continues with Operation Twist and U.S. short term interest rates will be near zero for some time.

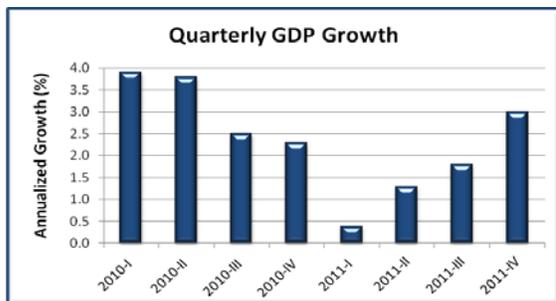
Despite the positives mentioned, risks remain. While immediate concerns in Europe have diminished, structural problems are, in some cases, severe. Resulting European growth/recession will be a drag on the global economy. Iranian saber rattling and related oil market disruptions/embargos will also be front and center. Through February, Brent crude was already up 14.2% for the year. Heightened tension and/or military action are very real risks.

February's Economic Releases

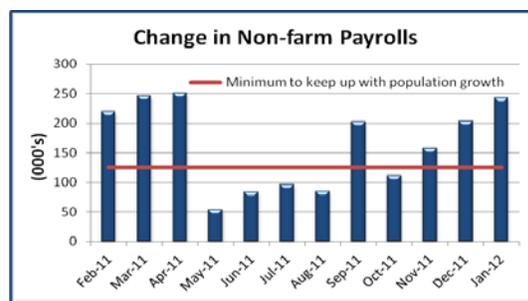
<u>General</u>	<u>Prior</u>	<u>Current</u>
GDP growth	1.8% (Q3)	3.0% (Q4)
Trade balance	-\$47.1 B (Nov)	-\$48.8 B (Dec)

<u>Employment</u>	<u>Prior</u>	<u>Current</u>
Initial jobless claims	351,000	351,000
Continuing claims	3.4 MM	3.4 MM
Change in nonfarm payrolls	203,000 (Dec)	243,000 (Jan)
Unemployment rate	8.5% (Dec)	8.3% (Jan)
Average weekly hours	34.5 (Dec)	34.5 (Jan)

<u>Consumer</u>	<u>Prior</u>	<u>Current</u>
Consumer confidence index (Conf. Board)	61.5 (Jan)	70.8 (Feb)
Retail sales growth (YoY)	4.4% (Dec)	5.6% (Jan)
Consumer credit	\$20.4 B (Nov)	\$19.3 B (Dec)



Data Source: U.S. Department of Commerce



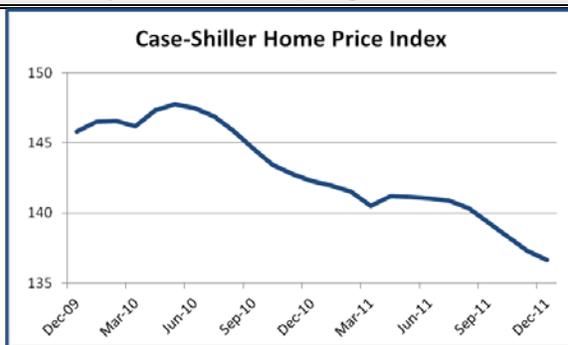
Data Source: U.S. Department of Labor



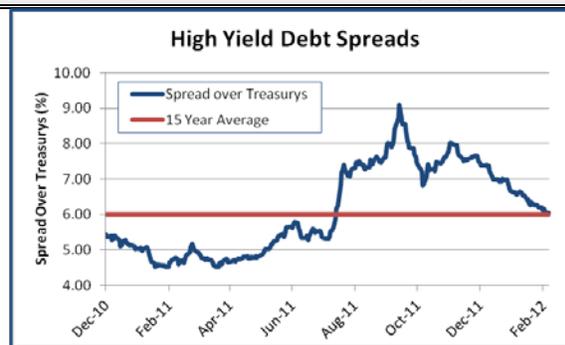
Manufacturing & Service	Prior	Current
ISM manufacturing index	53.1 (Dec)	54.1 (Jan)
ISM non-manufacturing index	53.0 (Dec)	56.8 (Jan)
Durable goods orders growth	3.2% (Dec)	-4.0% (Jan)
Industrial production growth	1.0% (Dec)	0.0% (Jan)
Capacity utilization	78.6% (Dec)	78.5% (Jan)

Real Estate	Prior	Current
New home sales	324,000 (Dec)	321,000 (Jan)
Existing home sales	4.4 MM (Dec)	4.6 MM (Jan)
Case-Shiller home price index (YoY)	-3.9% (Nov)	-4.0% (Dec)

Inflation	Prior	Current
Consumer price index/Core (YoY growth)	3.0%/2.2% (Dec)	2.9%/2.3% (Jan)
Producer price index/Core (YoY growth)	4.8%/3.0% (Dec)	4.1%/3.0% (Jan)



Data Source: S&P/Case-Shiller



Data Source: Bank of America Merrill Lynch

Market Returns

The S&P 500 index gained 4.3% for the month and is now up 9.0% for the year. Developed international equity markets, as defined by the MSCI EAFE index, were up 5.7% for the month. Emerging markets continued a strong rally this year, tacking on 6.0% in February. Year-to-date, international developed and emerging markets returned 11.4% and 18.0%, respectively.

In the fixed income market, the Barclays US Aggregate index was flat for the month and the 10-year U.S. Treasury bond ended with a slightly higher yield of 1.98%. For the year, the Barclays U.S. Aggregate has gained 0.9%. The credit rally that began last October continued with U.S. high yield debt spreads falling to the 15 year average and high yield bonds gaining 5.5% in February. On a global basis, bonds were off slightly for the month but have gained 2.1% for the year.

Commodities rose 2.7% in February while real estate (publicly traded REITs) lost 0.7% for the period.

Disclaimers

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