Economic & Market Review

~ January 2013 Investment Newsletter ~

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Monthly Summary

A New Year's Day congressional deal to side-step much of the fiscal cliff led to a relief rally in early January. The upward trajectory was further fueled by reasonable economic reports, easing global tensions, and favorable corporate earnings releases. By month-end, creative legislation to delay government debt ceiling drama and a resolutely dovish Federal Reserve were sufficient to propel U.S. stocks to within striking distance of all-time highs.

The month was not devoid of challenges and near-term policy issues remain. Fourth quarter U.S. GDP surprisingly contracted by an annualized rate of 0.1%. Consumer confidence also plunged in January as worker pay was hit by higher payroll taxes. As for the government, delayed sequestration cuts look increasingly likely to hit on March 1 and the debt ceiling debate will resurface again this summer.

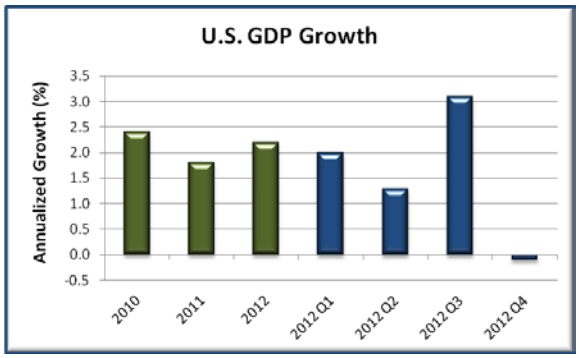
In light of favorable policy developments, universally bullish Wall Street investment strategists, and expectations of paltry fixed income returns, investors have been reassessing their portfolio allocations and willingness to own risky assets. Indeed, by mid-January, equity oriented mutual funds and ETFs had registered the strongest two-week period of inflows since April of 2000. Unfortunately, retail fund flows are anything but a smart-money indicator, and April 2000 was the first full month following the peak of the internet bubble! In short, breaking a 22 month string of equity fund outflows is certainly news; it's just that the news may not be good.

January's Economic Releases

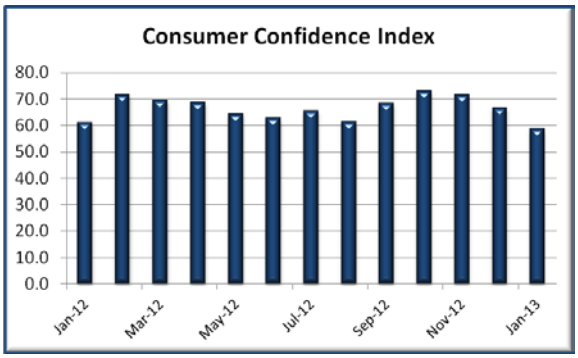
General	Prior	Current
GDP growth	3.1% (Q3)	-0.1% (Q4)
Trade balance	-$42.1 B (Oct)	-$48.7 B (Nov)

Employment	Prior	Current
Initial jobless claims	330,000	368,000
Continuing claims	3.2 MM	3.2 MM
Change in Nonfarm payrolls	196,000 (Dec)	157,000 (Jan)
Unemployment rate	7.8% (Dec)	7.9% (Jan)
Average weekly hours	34.4 (Dec)	34.4 (Jan)

Consumer	Prior	Current
Consumer confidence index (Conf. Board)	66.7 (Dec)	58.6 (Jan)
Retail sales growth (YoY)	5.1% (Nov)	2.5% (Dec)
Change in consumer credit	$14.1 B (Oct)	$16.0 B (Nov)



Data Source: U.S. Department of Commerce

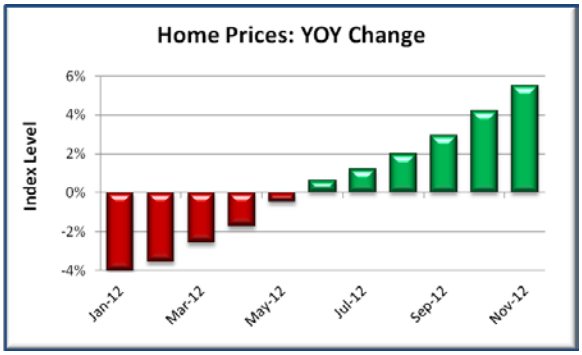


Data Source: The Conference Board

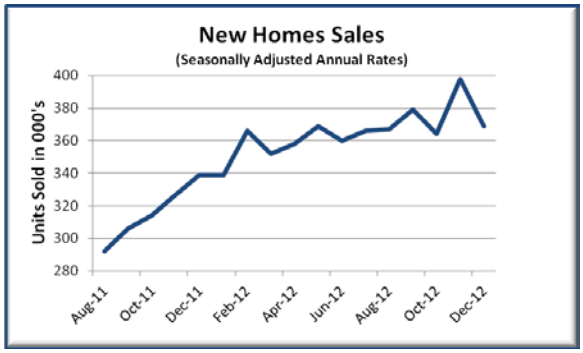
Manufacturing & Service	Prior	Current
ISM manufacturing index	49.9 (Nov)	50.7 (Dec)
ISM non-manufacturing index	54.8 (Nov)	56.1 (Dec)
Durable goods orders growth	0.7% (Nov)	4.6% (Dec)
Industrial production growth	1.0% (Nov)	0.3% (Dec)
Capacity utilization	78.7% (Nov)	78.8% (Dec)

Real Estate	Prior	Current
New home sales	398,000 (Nov)	369,000 (Dec)
Existing home sales	5.0 MM (Nov)	4.9 MM (Dec)
Case-Shiller home price index (YoY)	4.2% (Oct)	5.5% (Nov)

Inflation	Prior	Current
Consumer price index/Core (YoY growth)	1.8%/1.9% (Nov)	1.7%/1.9% (Dec)
Producer price index/Core (YoY growth)	1.5%/2.2% (Nov)	1.3%/2.0% (Dec)



Data Source: S&P/Case-Schiller



Data Source: U.S. Department of Commerce

Market Returns

The S&P 500 index gained 5.2% during the month of January, its best annual start in nearly two decades. Developed international equity markets, as defined by the MSCI EAFE Developed Markets index, were up 5.3% for the month. Emerging markets started the year with less significant gains, rising 1.4% for the month. For dollar-based investors, modest dollar strength weighed slightly on international developed market returns.

In the fixed income market, the Barclays U.S. Aggregate index fell 0.7% for the month as a result of higher interest rates. The 10-year U.S. Treasury note ended the month with a yield of 2.02%, up 24 basis points in January and its first time over 2% since last April.

Broad commodities and publicly traded domestic REITs posted gains of 2.4% and 4.0%, respectively.