

Economic & Market Review

~ April 2013 Investment Newsletter ~

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Monthly Summary

In each of the past three years, economic activity started with a burst of momentum and then slowed into the spring. This year, evidence suggests a continuation of that trend. Against previous months, labor markets weakened somewhat in March and April, manufacturing growth has eased materially, and both retail sales and durable goods orders contracted in March. Following a disappointing 2.5% rate of growth in the first quarter, economists now expect a 1.8% annualized rate of GDP growth for the U.S. in the current quarter.

A slowing trend was not unique to the U.S. Notably, China's first quarter growth was disappointing as well. Retail sales growth slowed, industrial production faded in March, and both export demand and investment spending slowed. As for Europe, diminished growth expectations suggest a sixth consecutive quarter of economic contraction in Q1 and little growth for all of 2013. Pointing to fiscal tightening in the U.S. and stagnation in Europe, the International Monetary Fund (IMF) recently lowered its 2013 forecast for global growth. In response to fundamentals, the Fed remains fully engaged in unconventional easing, and the European Central Bank (ECB) lowered its key interest rate to 0.5%, a new record low.

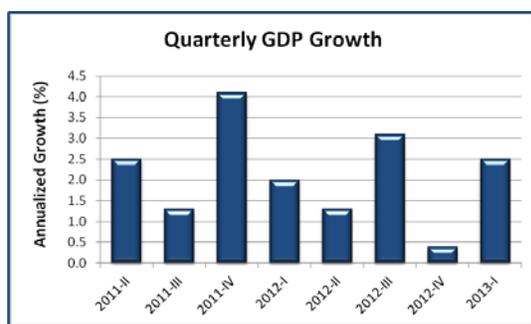
Aside from commodities, which portend a weaker economic landscape, investment markets performed well during the month, and investor sentiment is unabashedly bullish. U.S. credit spreads have tightened to levels last seen in 2007, stock markets have hit new highs, and margin debt is over 2% of GDP for only the fourth time in history. As for commodities, copper, widely viewed as a leading indicator, fell into bear market territory (down over 20%). Additionally, gold collapsed during the month due to diminished inflation fears, slower economic growth, and the potential of forced selling by beleaguered European nations.

Economic Data

General	Prior	Current
GDP growth	0.4% (Q4)	2.5% (Q1)
Trade balance	-\$44.5 B (Jan)	-\$43.0 B (Feb)

Employment	Prior	Current
Initial jobless claims	342,000 (4/25)	324,000 (5/2)
Continuing claims	3.0 MM (4/25)	3.0 MM (5/2)
Change in Nonfarm payrolls	138,000 (Mar)	165,000 (Apr)
Unemployment rate	7.6% (Mar)	7.5% (Apr)
Average weekly hours	34.6 (Mar)	34.4 (Apr)

Consumer	Prior	Current
Consumer confidence index (Conf. Board)	61.9 (Mar)	68.1 (Apr)
Retail sales growth (YoY)	0.9% (Feb)	1.8% (Mar)
Change in consumer credit	\$12.7 B (Jan)	\$18.1 B (Feb)



Data Source: U.S. Department of Commerce



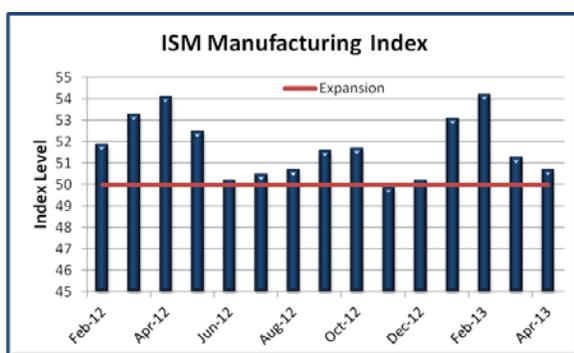
Data Source: U.S. Department of Commerce



Manufacturing & Service	Prior	Current
ISM manufacturing index	51.3 (Mar)	50.7 (Apr)
ISM non-manufacturing index	54.4 (Mar)	53.1 (Apr)
Durable goods orders growth	4.3% (Feb)	-5.7% (Mar)
Industrial production growth	1.1% (Feb)	0.4% (Mar)
Capacity utilization	78.3% (Feb)	78.5% (Mar)

Real Estate	Prior	Current
New home sales	411,000 (Feb)	417,000 (Mar)
Existing home sales	5.0 MM (Feb)	4.9 MM (Mar)
Case-Shiller home price index (YoY)	8.1% (Jan)	9.3% (Feb)

Inflation	Prior	Current
Consumer price index/Core (YoY growth)	2.0%/2.0% (Feb)	1.5%/1.9% (Mar)
Producer price index/Core (YoY growth)	1.7%/1.7% (Feb)	1.1%/1.7% (Mar)



Data Source: Institute for Supply Management



Data Source: S&P/Case-Shiller

Market Returns

The S&P 500 gained 1.9% for the month and is now up 12.7% for the year. Developed international equity markets, as defined by the MSCI EAFE index, were up 5.2% in April while the MSCI Emerging Markets index gained 0.8%. Year-to-date, international developed and emerging markets have returned 10.6% and -0.9%, respectively.

In the fixed income market, the Barclays U.S. Aggregate index gained 1.0% for the month, and the yield on the 10-year U.S. Treasury bond fell 17 basis points to end at 1.70%. For the year, the Barclays U.S. Aggregate is up 0.9%. High yield credit spreads continued to tighten during the month, ending at 4.55% or 1.71% below the 15 year average of 6.26%. The Barclays High Yield index gained 1.8% in April and is up 4.8% so far this year. International bonds gained 1.7% for the month but remain down 1.9% for the year-to-date. Lastly, the Dow Jones UBS Commodity index was down 2.8% in April, and the Dow Jones U.S. Real Estate index gained 5.7% for the month.

Disclaimers

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