



### MONTHLY SUMMARY

The year-end stock market rally continued into the new year with major stock market indexes delivering mid single digit returns. Small capitalization stocks and emerging markets were the best performers, rising 7.1% and 11.3%, respectively. It was the stock market's best annual start since January of 1997. Other risk based assets such high yield bonds and real estate investment trusts also performed well.

Domestic economic growth accelerated in the fourth quarter, but results failed to meet expectations and the quality of the growth was poor. Consumer spending rose by a tepid 2.0%, government spending was a drag for the fifth quarter in a row, and inventory restocking accounted for 70% of total growth. The labor market improved with drops in both the unemployment rate and jobless claims. Payroll growth was also good. Inflationary pressure continued to abate, which provides cover to an aggressive Federal Reserve. Lastly, housing prices fell, again, to a new post-crisis low.

The star of the show in January, and architect of the aforementioned capital market gains, was the European Central Bank. The ECB's late 2011 offering of three year, low interest rate loans to European banks acted to stabilize the financial system and put a bid under troubled European sovereign debt. Italian and Spanish yields dropped materially and both countries pulled off surprisingly strong debt auctions. Europe is not out of the woods, however. Greek debt restructuring, a major theme throughout the month, is still unresolved and time is growing short. S&P's downgrade of nine European countries is still playing out and financial pressure in Portugal suggests it is the next epicenter of stress.

### January's Economic Releases

<b>General</b>	<b>Prior</b>	<b>Current</b>
GDP growth	1.8% (Q3)	2.8% (Q4)
Trade balance	-\$43.3 B (Oct)	-\$47.8 B (Nov)
<b>Employment</b>	<b>Prior</b>	<b>Current</b>
Initial jobless claims	356,000	377,000
Continuing claims	3.5 MM	3.6 MM
Nonfarm payrolls	100,000 (Nov)	200,000 (Dec)
Unemployment rate	8.7% (Nov)	8.5% (Dec)
Average weekly hours	34.3 (Nov)	34.4 (Dec)
<b>Consumer</b>	<b>Prior</b>	<b>Current</b>
Consumer confidence index (Conf. Board)	64.8 (Dec)	61.1 (Jan)
Retail sales growth (YoY)	6.0% (Nov)	4.8% (Dec)
Consumer credit	\$6.0 B (Oct)	\$20.4 B (Nov)



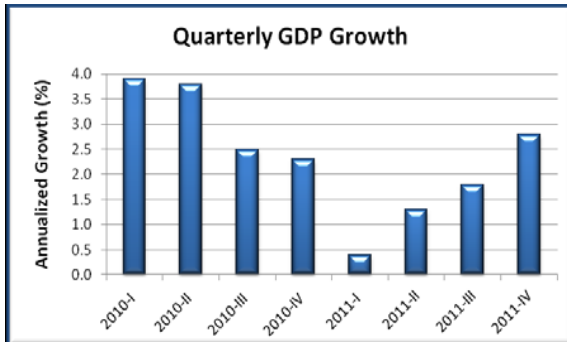


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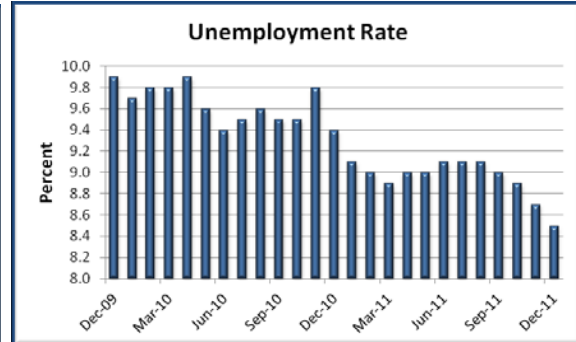
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2012



Data Source: U.S. Bureau of Economic Analysis



Data Source: U.S. Census Bureau

### Manufacturing & Service

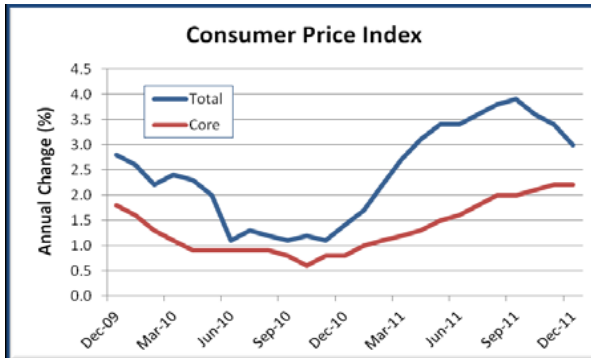
	<u>Prior</u>	<u>Current</u>
ISM manufacturing index	52.2 (Nov)	53.9 (Dec)
ISM non-manufacturing index	52.6 (Nov)	52.6 (Dec)
Durable goods orders growth	4.3% (Nov)	3.0% (Dec)
Industrial production growth	-0.3% (Nov)	0.4% (Dec)
Capacity utilization	77.8% (Nov)	78.1% (Dec)

### Real Estate

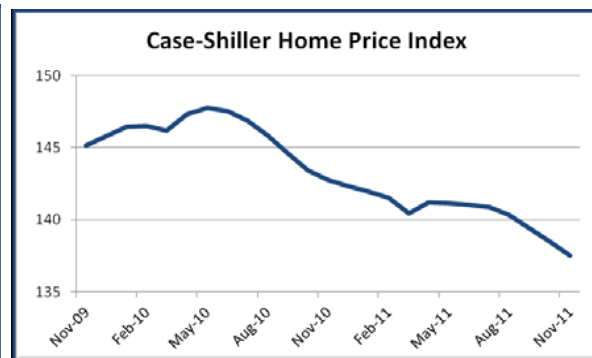
	<u>Prior</u>	<u>Current</u>
New home sales	314,000 (Nov)	307,000 (Dec)
Existing home sales	4.4 MM (Nov)	4.6 MM (Dec)
Case-Shiller home price index (YoY)	-3.4% (Oct)	-3.7% (Nov)

### Inflation

	<u>Prior</u>	<u>Current</u>
Consumer price index/Core (YoY growth)	3.4%/2.2% (Nov)	3.0%/2.2% (Dec)
Producer price index/Core (YoY growth)	5.7%/2.9% (Nov)	4.8%/3.0% (Dec)



Data Source: U.S. Department of Labor



Data Source: Institute for Supply Chain Management





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## Market Returns

The S&P 500 index gained 4.5% during the month of January. 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 on a strong note as the MSCI Emerging Markets index gained 11.3% for the month. Currency strength, particularly in developing economies, enhanced returns for dollar based investors.

In the fixed income market, the Barclays U.S. Aggregate index was up 0.9% for the month and the 10-year U.S. Treasury bond ended with a yield of 1.87%, little changed for the month. High yield, international, and municipal bonds showing relative strength while nominal U.S. Treasuries were the laggards of the group.

Broad commodities and publicly traded domestic REITs posted gains of 2.5% and 6.7% respectively.

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