

Economic & Market Review

~ May 2013 Investment Newsletter ~

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Monthly Summary

Dismissing the potential of a spring economic swoon and the adage to sell in May, investors pushed both domestic stocks, and margin balances, to new all-time highs during May. Following suit, high yield debt yields also fell below 5% for the first time in history. Capital raised through initial public offerings is on pace for the best year since 2007, stock funds have had their largest inflow of new money in six years, and 74% of professional investors identified themselves as either bullish or very bullish in a recent Barron's poll.

Exuberance diminished, however, in the final third of the month. A contraction in Chinese manufacturing intensified global growth concerns and tripped up the meteoric rise of the Japanese stock market that launched last November. U.S. monetary policy also went under a microscope following suggestions by Bernanke that the Fed may back off of bond buying in coming meetings. On this news, bonds weakened, capital market volatility rose, and the dollar rallied.

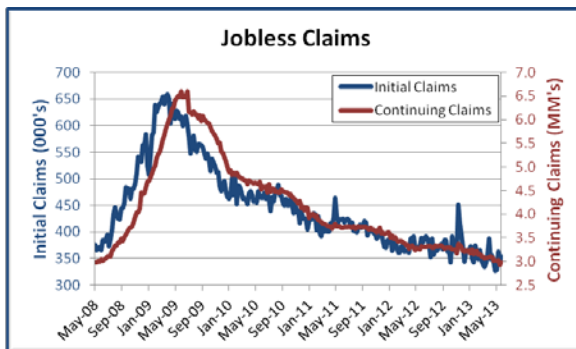
There are certainly bright spots in the domestic economy. The housing recovery continues, auto sales remain brisk, and energy production growth has been extraordinary. That being said, expectations for the Fed to back off the accelerator in the near-term seem premature. Manufacturing is showing marked weakness – nearly worldwide – and strength in the dollar will both slow growth and put further downward pressure on an already diminished rate of inflation. Furthermore, rampant beggar-thy-neighbor currency devaluations across the globe will magnify all of the above. Lastly, the Fed has expressed concern about the impact of fiscal constraint (tax increases and sequestration cuts) and considers the labor market far from healthy.

Economic Data

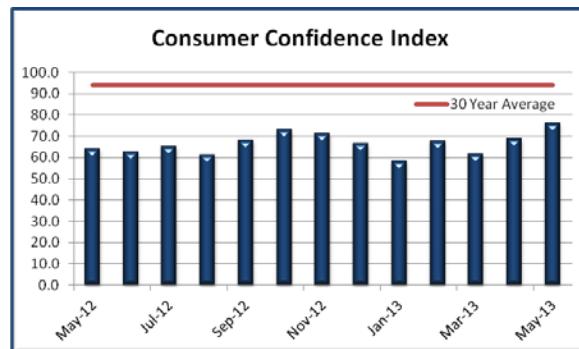
| General | Prior | Current |
|----------------|-----------------|-----------------|
| GDP growth | 0.4% (Q4) | 2.4% (Q1) |
| Trade balance | -\$43.6 B (Feb) | -\$38.8 B (Mar) |

| Employment | Prior | Current |
|----------------------------|----------------|----------------|
| Initial jobless claims | 344,000 (5/18) | 354,000 (5/25) |
| Continuing claims | 2.9 MM (5/11) | 3.0 MM (5/18) |
| 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) | 69.0 (Apr) | 76.2 (May) |
| Retail sales growth (YoY) | 2.0% (Mar) | 4.1% (Apr) |
| Change in consumer credit | \$18.6 B (Feb) | \$8.0 B (Mar) |



Data Source: U.S. Department of Labor



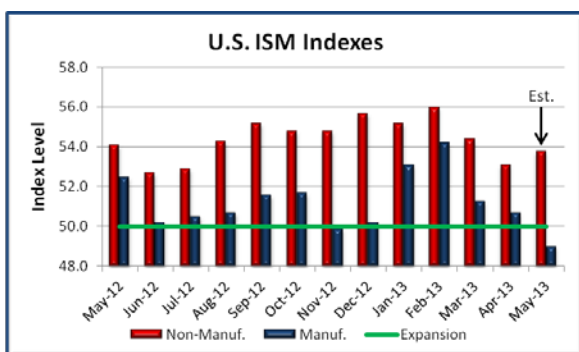
Data Source: The Conference Board



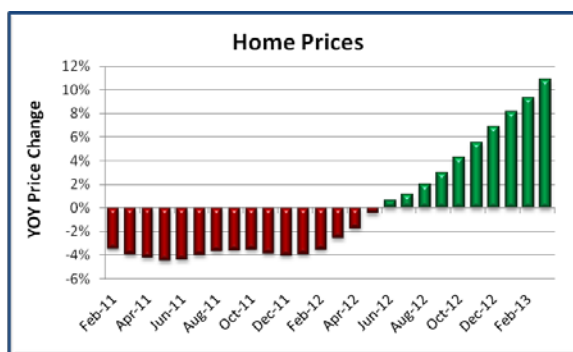
| Manufacturing & Service | Prior | Current |
|------------------------------------|--------------|----------------|
| ISM manufacturing index | 50.7 (Apr) | 49.0 (May) |
| ISM non-manufacturing index | 54.4 (Mar) | 53.1 (Apr) |
| Durable goods orders growth | -5.9% (Mar) | 3.3% (Apr) |
| Industrial production growth | 0.3% (Mar) | -0.5% (Apr) |
| Capacity utilization | 78.3% (Mar) | 77.8% (Apr) |

| Real Estate | Prior | Current |
|-------------------------------------|---------------|----------------|
| New home sales | 444,000 (Mar) | 454,000 (Apr) |
| Existing home sales | 4.9 MM (Mar) | 5.0 MM (Apr) |
| Case-Shiller home price index (YoY) | 9.4% (Feb) | 10.9% (Mar) |

| Inflation | Prior | Current |
|--|-----------------|-----------------|
| Consumer price index/Core (YoY growth) | 1.5%/1.9% (Mar) | 1.1%/1.7% (Apr) |
| Producer price index/Core (YoY growth) | 1.1%/1.7% (Mar) | 0.6%/1.7% (Apr) |



Data Source: Institute for Supply Management



Data Source: S&P/Case-Shiller

Market Returns

The S&P 500 gained 2.3% for the month and is now up 15.4% for the year. Developed international equity markets, as defined by the MSCI EAFE index, were down 2.4% in May while the MSCI Emerging Markets index lost 2.6%. Absent significant dollar strength during the period, both indices would have posted gains. Year-to-date, international developed and emerging markets have returned 7.9% and -3.4%, respectively.

In the fixed income market, the Barclays U.S. Aggregate index lost 1.8% for the month, and the yield on the 10-year U.S. Treasury bond spiked 46 basis points to end at 2.16%. For the year, the Barclays U.S. Aggregate is down 0.9%. High yield credit spreads tightened in the first third of the month, but gave back gains to end slightly wider. The Barclays High Yield index lost 0.6% in May and is up 4.1% so far this year. International bonds lost 3.8% for the month and are now down 5.7% for the year-to-date. As with equities, dollar strength has been a drag on international fixed income returns. Lastly, the Dow Jones UBS Commodity index was down 2.2% in May, and the Dow Jones U.S. Real Estate index lost 6.5% for the month.

Disclaimers

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