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QUARTERLY MARKET REVIEW: APRIL - JUNE 2013

The Markets

Ironically, good news for the economy translated into bad news for investors after the Fed provided its blueprint for winding down the quantitative easing efforts that have benefitted financial markets in recent years. Until mid-May, equities seemed unstoppable as the Dow and S&P 500 powered to new all-time records.

However, as the Fed's outlook for continued moderate economic recovery grew more optimistic, both equities and bonds struggled in June. Still, domestic equities across the board managed a positive quarter, though gains were moderate compared to Q1's sizzling pace.

The prospect of less Fed support also affected other markets. Investors began to anticipate a future with higher interest rates and sold off bonds across the board. The 10-year Treasury yield rose to its highest point since August 2011, and since bond prices tend to fall when interest rates rise, bond values were hit hard.

Global equities were affected not only by the Fed but also by central bank decisions in China and Japan.

Despite some volatility, the dollar ended the quarter roughly where it began against a basket of six foreign currencies. However, gold's slide accelerated after the Fed's announcement; the precious metal briefly fell below \$1,200 an ounce before ending with a \$400 loss for the quarter.

A stronger dollar helped keep oil prices in check despite concerns about Middle East supplies.

Market/Index	2012 Close	As of 6/28	Monthly Change	Quarterly Change	YTD Change
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DJIA	13104.14	14909.83	-1.36%	2.27%	13.78%
NASDAQ	3019.51	3403.25	-1.52%	4.15%	12.71%
S&P 500	1426.19	1606.25	-1.50%	2.36%	12.63%
Russell 2000	849.35	977.48	-.68%	2.73%	15.09%
Global Dow	1995.96	2110.60	-3.43%	.10%	5.74%
Fed. Funds	.25%	.25%	0 bps	0 bps	0 bps
10-year Treasuries	1.78%	2.52%	36 bps	65 bps	74 bps

Equities data reflect price changes, not total return.

Quarterly Economic Perspective

The U.S. economy grew more slowly during the first quarter than previously thought, but the 1.8% increase in Q1 gross domestic product was still substantially better than the previous quarter's 0.4%. Assuming that moderate growth continues, the Fed said that by the end of the year it may start reducing the \$85 billion worth of bonds it has been buying monthly and end those purchases completely in 2014. However, it doesn't plan to raise interest rates until the unemployment rate is around 6.5%, which the Fed says could happen by the end of 2014.

The Fed wasn't the only central bank to affect global equities. China's central bank, which had been attempting to control lending, was forced to inject additional cash into the banking system to bring down record money market interest rates after concerns about liquidity helped cause a sharp drop in Chinese stocks. Meanwhile, a massive bond-buying program announced in April by the Bank of Japan helped buoy stocks there, though there also was some volatility after the central bank later refused to expand the program.

In a landmark ruling that struck down the Defense of Marriage Act, the U.S. Supreme Court paved the way for same-sex couples to claim the same federal tax and other benefits as other married couples in states that recognize same-sex marriages. Some of those benefits include survivor's/spousal Social Security and military benefits, the ability to inherit a spouse's estate tax-free, family medical leave rights, spousal visas and IRA contributions, joint federal income tax filings, and private pension benefit options.

The unemployment rate saw little change; the 7.7% rate announced in March by the Bureau of Labor Statistics nudged downward to 7.6% by quarter's end. The economy added 175,000 jobs in May, slightly more than the monthly average for the quarter. Over the past three months, the private sector created 489,000 new jobs while federal, state, and local governments eliminated 23,000 jobs (14,000 federal government jobs were cut in May alone).*

The housing market's recovery accelerated in the second quarter despite higher mortgage rates. The Commerce Department said May's 2.1% increase in new home sales represented the fastest annualized pace since the summer of 2008. As of April, home prices in the areas measured by the S&P 500/Case-Shiller 20-city index had their largest year-over-year gains--12.1%--in the last seven years. Home resales were almost 13% higher in May than a year earlier, according to the National Association of Realtors®, and housing starts were up 28.6% from last May.

U.S. manufacturing data was mixed. A 3.6% increase in durable goods orders in May followed an equally strong April, and the Commerce Department said business orders for new capital equipment rose 9.3%. However, the Fed's gauge of industrial production was little changed, and the Institute for Supply Management's manufacturing index for May showed contraction for the first time since November.

Inflation remained well-contained, according to the Bureau of Labor Statistics. Annual consumer inflation was a moderate 1.4% as of May, while the wholesale inflation rate remained controlled at 1.8%. By May, retail sales were 4.3% ahead of May 2012 and consumer spending during the month largely reversed April's decline, while the Bureau of Economic Analysis said inflation-adjusted incomes were up roughly 1% from a year earlier.

The European Union continued to be mired in recession. Eurozone unemployment hit a record 12.2% and the economy shrank 0.2% during the first quarter, according to the EU's statistical agency; that represents an annual contraction of 1.1%. Meanwhile, China's growth rate continued to show signs of slowing from Q1's 7.7%.

Eye on the Month Ahead

Key dates and data releases: U.S. manufacturing (7/1); factory orders, auto sales (7/2); balance of trade, U.S. services sector (7/3); unemployment/payrolls (7/5); Federal Reserve Open Market Committee minutes (7/10); wholesale inflation (7/12); retail sales, business inventories, Empire State manufacturing survey (7/15); consumer inflation, industrial production, international capital flows (7/16); housing starts, Fed "beige book" report (7/17); Philadelphia Fed manufacturing survey (7/18); options expiration (7/19); home resales (7/22); new home sales (7/24); durable goods orders (7/25); home prices (7/30); Federal Open Market Committee announcement, initial estimate of Q2 economic growth (7/31).

Sincerely,

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The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks.

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The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indexes listed are unmanaged and are not available for direct investment. The U.S. Dollar Index is a weighted geometric mean of the dollar compared to the euro, Japanese yen, British pound, Canadian dollar, Swedish krona, and Swiss franc.

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