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EYE ON THE MARKET

February 2013 Express

MARKET DATA				
	January	**3 Mo.**	**YTD**	**1 Year**
S&P 500	5.04%	6.09%	5.04%	14.15%
Russell 2000	6.21%	10.18%	6.21%	13.78%
NASDAQ	4.06%	5.54%	4.06%	11.67%
MSCI EAFE	5.19%	10.85%	5.19%	13.49%
UK (FTSE)	6.43%	8.55%	6.43%	10.48%
Germany (DAX)	2.15%	7.10%	2.15%	20.14%
Japan (NIKKEI)	7.90%	24.76%	7.90%	26.54%
MSCI Emerging Markets	1.31%	7.40%	1.31%	4.87%
Barclays Aggregate	-0.62%	-0.60%	-0.62%	2.37%

All market data as of the end of January 2013. Quoted index returns are based on month end index prices (in local currency) and do not include dividends.

U.S. ECONOMIC DATA				
	January	**Prior Month**	**Beginning of Year**	**Prior Year**
10 year Treasury Yield	1.99%	1.76%	1.76%	1.80%
Gold (London pm fixing per ounce in dollars)	1699	1675	1675	1744
Oil ($ per barrel)	97.86	91.82	91.82	98.48
VIX Index	14.38	18.02	18.02	19.44

All economic and market data as of the end of January 2013.

Eye on the Market

The markets opened strong in 2013 as the S&P gained 5.04% in the first month, marking its best January performance since 1997 (6.25%).The initial productivity may be attributed to "the January Effect," which suggests a general increase in stocks in January due to factors like investors reinstating equity positions at the end of December in order to claim taxes. However, historical records indicate that a strong January often precedes a positive year.

Since 1980, the S&P has experienced gains in January for 21 of the last 33 years. Of those 21, 18 received overall market gains for the year. A less optimistic foreboding for 2013 is the "Super Bowl effect." Historically, in years when the NFC won the big game, the market has an average return of 11.06%. When the AFC triumphed, returns averaged just 3.95%. Consequently, the AFC's victory in 2013 by the Baltimore Ravens could suggest a more humble market year.

January was a productive month in terms of corporate earnings for many companies in the S&P 500. Through January 25th, approximately two–thirds of companies in the S&P 500 reported greater results than anticipated. About 69% of companies reported earnings above estimates, and a remarkable 64% reported revenues above estimates. Prior to the start of earning season, analysts were concerned about revenue growth. The number of companies exceeding revenue estimates in January was a welcome surprise. However, one noteworthy company did not have a particularly fruitful month. Apple's stock continued to struggle in January, as the company released disappointing earnings, losing more than 14% and relinquishing the title of largest company by market cap back to Exxon Mobil. For the month, Apple was one of the worst performing stocks in the S&P 500.

On January 30th, the Federal Reserve concluded their latest meeting with no significant changes. As anticipated, they will maintain steady rates and continue purchasing $85 billion per month: $40 billion in Mortgage-backed Securities and $45 billion in Treasuries. In its statement, the Fed said economic activity paused in recent months, attributed mainly to "transitory factors" (fiscal cliff) and the weather. Employment continued to expand at a moderate pace, but the unemployment rate remains high. The housing market showed further improvement as household spending and business investments advanced. U.S. housing starts rose 12.1% in December and is on pace to produce an annual rate of 954,000 units, according to the Commerce Department. Housing prices also exhibited signs of recovery as the latest Case Shiller Index showed home prices rose 4.5% for the 10-City Composite and 5.5% for the 20-City Composite in the 12 months ending in November 2012.

Fourth quarter GDP was diminished to a startling -0.1%, the first drop since the second quarter of 2009. Sharp drops in inventory investment and government defense spending were contributing factors to the slump, deducting about 2.5 percentage points from growth. The Consumer Confidence board reported that consumer confidence dropped 8.1 points to 58.6 in January, its lowest level since November 2011.

European markets were relatively quiet in the dawn of 2013. Headline risks associated with sovereign debt seem to have abated, helping to inspire positive performance in European markets. Market observers have become slightly more positive on the region and have indicated positive economic growth for Europe later in the year. Japanese markets continued their strong performance following the adopted 2% inflation target and open-ended asset purchases by the Bank of Japan.

Despite extraordinarily low yields in most developed markets, investors continue to pour money into fixed income investments. As a reminder, while money moves into fixed income, bond prices rise and yields on those bonds decline. Since the recession in 2008, investors have moved large amounts of money to fixed income assets. This has led some market analysts to raise red flags about the prospect of fixed income instruments. Loomis Sayles Bond fund manager Dan Fuss, who oversees $66 billion in fixed income assets, aired caution in an interview with Bloomberg on January 30th. "This is the most overbought market I have ever seen in my life in the business," Fuss said. "What I tell my clients is, 'It's not the end of the world, but for heaven's sakes don't go out and borrow money to buy bonds right now.'"

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