MONTHLY ECONOMIC UPDATE

INVESTMENT NEWSLETTER / FEBRUARY 2013

February Summary

Investment returns in February were generally positive despite a steady stream of challenges during the month. On the home front, retailers expressed caution as consumers face headwinds from higher taxes and rising gasoline prices. The Congressional Budget Office (CBO) also slashed its estimate for the long-term U.S. growth rate from 3.0% to 1.9%. As for policy, Federal Reserve meeting minutes revealed more discussion of backing off the monetary throttle, and Congress failed to either prevent or modify $85 billion in sequestration cuts that are now in effect. Internationally, subtle undertones of protectionism were evident during the month and not so subtle competitive currency devaluations were unabashedly pursued, particularly by Japan. The threat from Iran is also escalating, and saber rattling between China and Japan has been disconcerting. Lastly, the relative calm in Europe gave way to renewed concerns following inconclusive elections in Italy. The failure of any political party to achieve a parliamentary majority may lead to prolonged instability and renewal of the European financial crisis. Although Italy's political leadership is in question, there was no doubt about the electorate's massive rejection of the austerity policies adopted by Mario Monti.

As mentioned, investment markets performed admirably in the face of the challenges outlined. Key supporting factors included: universally expansionary comments by central bankers globally, upwardly revised U.S. Q4 GDP growth from -0.1% to 0.1%, the CBO's forecast of a 2013 U.S. deficit below $1 trillion for the first time in five years, jobless claims pushing against a five year low, renewed vigor in U.S. manufacturing, and continued strength in U.S. housing.

February's Economic Releases

General	Prior	Current
GDP growth	3.1% (Q3)	0.1% (Q4)
Trade balance	-$48.6 B (Nov)	-$38.5 B (Dec)
Employment	**Prior**	**Current**
Initial jobless claims	366,000	344,000
Continuing claims	3.2 MM	3.1 MM
Change in Nonfarm payrolls	196,000 (Dec)	157,000 (Jan)
Unemployment rate	7.8% (Dec)	7.9% (Jan)
Average weekly hours	34.4 (Dec)	34.4 (Jan)
Consumer	**Prior**	**Current**
Consumer confidence index (Conf. Board)	58.4 (Jan)	69.6 (Feb)
Retail sales growth (YoY)	2.5% (Dec)	6.2% (Jan)
Change in consumer credit	$15.9 B (Nov)	$14.6 B (Dec)
Manufacturing & Service	**Prior**	**Current**
ISM manufacturing index	50.2 (Dec)	53.1 (Jan)
ISM non-manufacturing index	55.7 (Dec)	55.2 (Jan)
Durable goods orders growth	3.7% (Dec)	-5.2% (Jan)
Industrial production growth	0.4% (Dec)	-0.1% (Jan)
Capacity utilization	79.3% (Dec)	79.1% (Jan)
Real Estate	**Prior**	**Current**
New home sales	378,000 (Dec)	437,000 (Jan)
Existing home sales	4.9 MM (Dec)	4.9 MM (Jan)
Case-Shiller home price index (YoY)	5.4% (Nov)	6.8% (Dec)
Inflation	**Prior**	**Current**
Consumer price index/Core (YoY growth)	1.7%/1.9% (Dec)	1.6%/1.9% (Jan)
Producer price index/Core (YoY growth)	1.3%/2.0% (Dec)	1.4%/1.8% (Jan)

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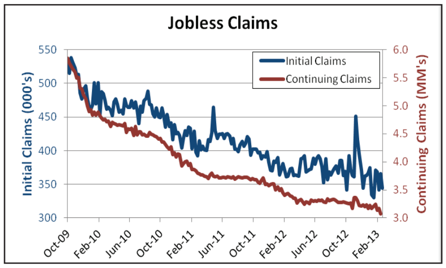
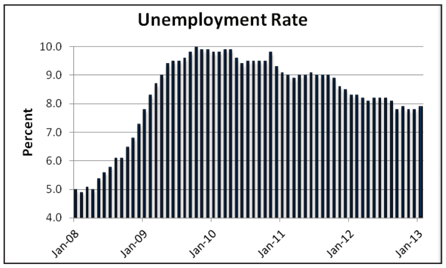


Data Source: U.S. Department of Labor



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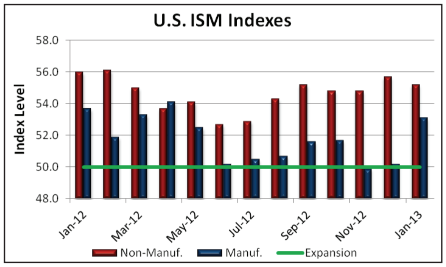
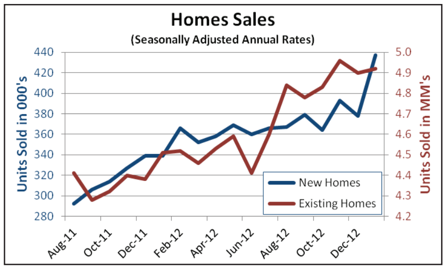


Data Source: Institute for Supply Management



Data Source: U.S. Census Bureau/Nat'l Association of Realtors

Market Returns

The S&P 500 gained 1.4% for the month and is now up 6.6% for the year. Developed international equity markets, as defined by the MSCI EAFE index, were down 0.9% in February while the MSCI Emerging Markets index lost 1.3%. Year-to-date, international developed and emerging markets are up 4.3% and 0.1%, respectively.

In the fixed income market, the Barclays U.S. Aggregate index gained 0.5% for the month, and the yield on the 10-year U.S. Treasury bond fell slightly to end at 1.89%. For the year, the Barclays U.S. Aggregate is down 0.2%. High yield credit spreads moved in a tight range this month and remain about 100 basis points below the 15 year average of 6.12%. The Barclays High Yield index gained 0.5% in February and is up 1.9% so far this year. After losing 2.0% for the month, international bonds are down 3.0% for the year-to-date. Lastly, the Dow Jones UBS Commodity index was down 4.1% in February, and the Dow Jones U.S. Real Estate index gained 1.2% for the month.

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