

January 2012 Market and Economic Flash Report

U.S. equities rose during December, outperforming Non-U.S. equities

- U.S. equity markets delivered positive performance on improved consumer sentiment and stronger than expected economic data
- Both International Developed and Emerging Markets equities lost value on weaker economic growth forecasts and limited progress on the sovereign debt in Europe
- Hedge funds generally finished the year with negative returns on high volatility and a lack of market directionality

Our View

The European Sovereign debt crisis continued to suffer from the lack of a clear policy correction. We expect this volatile and uncertain investment environment to persist until a permanent solution is realized.

Treasury yields fell, corporate credit outperformed

- Returns from corporate bonds (2.1%) and high yield bonds (2.5%) surpassed those from Treasuries (1.0%) in December as credit spreads tightened
- The yield on the 10-year Treasury ended the month at 1.9%, approximately 0.3% below November's yield
- The municipal bond market returned 2.0% for the month and 11.2% for 2011, largely because the supply of new municipal bonds fell to its lowest level in 10 years on account of states and cities hesitating to fund new projects

Our View

We expect interest rates to remain within a fairly narrow range in the near-term with the Federal Reserve acting to prevent a spike in rates. We are closely monitoring high yield and emerging market debt for tactical opportunities. However, an expansion in the sovereign debt crisis would likely impact these segments materially.

Manufacturing expanded, European Union took limited action

- The Institute for Supply Management's factory index rose to 53.9 from 52.7 in November indicating expanding manufacturing activity
- New jobless claims (381,000) fell to the lowest level since June 2008
- The European Union agreement to apply fiscal and budgetary restrictions on member nations is expected to have a limited impact on rates

Our View

Mildly positive U.S. economic data, particularly within manufacturing, support our outlook for continued muted economic growth. However, we are cognizant that risks remain skewed to the downside and have positioned portfolios to be moderately defensive.

Equity	December	3 Months	YTD	1 Year
S&P 500 Index	1.02%	11.82%	2.11%	2.11%
Russell 1000 Index	0.84%	11.87%	1.53%	1.53%
Russell 2000 Index	0.66%	15.48%	(4.17%)	(4.17%)
Russell 2500 Index	0.23%	14.54%	(2.75%)	(2.75%)
Russell 3000 Index	0.82%	12.12%	1.03%	1.03%
Russell 3000 Growth Index	(0.31%)	10.96%	2.21%	2.21%
Russell 3000 Value Index	1.98%	13.35%	(0.06%)	(0.06%)
MSCI EAFE Index	(0.94%)	3.38%	(11.73%)	(11.73%)
MSCI EAFE Small Cap Index	(1.90%)	(0.52%)	(15.66%)	(15.66%)
MSCI Emerging Markets Index	(1.20%)	4.45%	(18.17%)	(18.17%)

Fixed Income	December	3 Months	YTD	1 Year
Merrill Lynch Municipals, 3-7 Yrs Index	1.31%	1.40%	6.89%	6.89%
Merrill Lynch Municipal Master Index	1.98%	2.11%	11.19%	11.19%
Barclays Capital Aggregate Bond Index	1.10%	1.12%	7.84%	7.84%
ishares Barclays TIPS Bond Fund	0.16%	2.77%	13.28%	13.28%
Merrill Lynch High Yield Master II Index	2.48%	6.18%	4.38%	4.38%

Non-Traditional	December	3 Months	YTD	1 Year
FTSE NAREIT US Equity REIT Index	4.80%	15.26%	8.28%	8.28%
Dow Jones UBS Commodity Index	(3.75%)	0.35%	(13.32%)	(13.32%)
HFRX Absolute Return Index	(0.30%)	(0.06%)	(3.89%)	(3.89%)
HFRX Market Directional Index	(1.28%)	(2.66%)	(18.73%)	(18.73%)

Actual Month-End Value/Yield	December	September	June	Dec-10
10 Yr TIPS Implied Inflation	2.00%	1.77%	2.47%	2.33%
CBOE VIX	23.40	42.96	16.52	17.75
Gold Spot \$/OZ	\$1,563.70	\$1,623.97	\$1,500.35	\$1,420.78
WTI Crude Oil Spot Price \$/BL	\$98.16	\$78.65	\$94.92	\$90.73
Trade-Weighted US Dollar Index	73.17	71.17	69.58	73.79

S&P 500 Index - Includes a representative sample of 500 leading companies in leading industries of the U.S. economy.

Russell 1000 Index - Measures the performance of the large cap segment of the U.S. equity universe and represents approximately 92% of the U.S. market.

Russell 2000 Index - Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, representative of the U.S. small capitalization securities market.

Russell 2500 Index - Measures the performance of the 2,500 smallest companies in the Russell 3000 Index, representative of the U.S. small and mid capitalization securities market.

Russell 3000 Index - Measures the performance of the broad U.S. equity universe representing approximately 98% of the U.S. market.

Russell 3000 Growth Index - Measures the performance of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 3000 Value Index - Measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

MSCI EAFE Index - A free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada. Consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI EAFE Small Cap Index - A free float-adjusted market capitalization index that is designed to measure the small capitalization segment of developed market equity performance, excluding the U.S. and Canada.

MSCI Emerging Markets Index - A free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Consists of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Merrill Lynch Municipals, 3-7 Yrs Index - A subset of The Merrill Lynch U.S. Municipal Securities Index including all securities with a remaining term to final maturity greater than or equal to 3 years and less than 7 years.

Merrill Lynch Municipal Master Index - Tracks the performance of U.S. Dollar denominated investment grade tax-exempt debt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. domestic market.

Barclays Capital Aggregate Bond Index - Covers the U.S. Dollar denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

ishares Barclays TIPS Bond Fund - An exchange traded fund that seeks results that correspond generally to the price and yield performance of the inflation-protected sector of the United States Treasury market as defined by the Barclays Capital U.S. TIPS index.

Merrill Lynch High Yield Master II Index - Tracks the performance of U.S. Dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

FTSE NAREIT US Equity REIT Index - A measure of U.S. publically traded real estate performance. Includes all real estate investment trusts that trade on the New York Stock Exchange, American Stock Exchange and NASDAQ National Market list, and is considered representative of the equity REIT market.

Dow Jones UBS Commodity Index - A broadly diversified index of futures contracts intended to be representative of the commodities market. It currently includes 19 commodity futures in seven sectors.

FRX Absolute Return Index - Tracks the performance of hedge funds likely to provide stable performance regardless of market conditions which are characteristically less volatile and less correlated to market benchmarks. Performance data is based on estimates for the most recent months may not include performance for the last business day of the indicated month, and is subject to change.

FRX Market Directional Index - Tracks the performance of hedge funds which add value by participating in the direction of various financial markets and characteristically have higher expected volatility than Absolute Return strategies. Performance data is based on estimates for the most recent months may not include performance for the last business day of the indicated month, and is subject to change.

10 Yr TIPS Implied Inflation - Intends to estimate investor expectations for inflation by subtracting the yield of a generic U.S. 10-year Treasury Inflation Protected Security from the yield of a generic U.S. 10-year Treasury.

CBOE VIX - Intends to measure market expectations of near-term volatility conveyed by S&P 500 stock index option prices with a constant maturity of 30 days.

Gold Spot \$/OZ - An index intended to measure the current price of gold for futures contracts deliverable in the following month priced in dollars per Troy ounce.

WTI Crude Oil Spot Price \$/BL - An index intended to measure the current price of West Texas Intermediate Midland Crude Oil in dollars per barrel.

Trade-Weighted US Dollar Index - A Federal reserve measure of the valuation of the Dollar relative to a composite of major trading partners.