

Market Week: February 21, 2012

The Markets

Equities returned to their winning ways. The Dow hit a level it hasn't seen since May 2008, and the S&P 500 last saw its current 1361 in May of last year. A slight loss on Friday nudged the Nasdaq away from the year-long high it hit on Thursday, while the Russell 2000 had the best week of the group. Renewed hope for an agreement on a second bailout package helped lift the Global Dow. The 10-year Treasury yield rose slightly, while oil prices once again rose over \$100 a barrel.

Market/Index	2011 Close	Prior Week	As of 2/20	Week Change	YTD Change*
DJIA	12217.56	12801.23	12949.87	1.16%	5.99%
Nasdaq	2605.15	2903.88	2951.78	1.65%	13.31%
S&P 500	1257.60	1342.64	1361.23	1.38%	8.24%
Russell 2000	740.92	813.33	828.68	1.89%	11.84%
Global Dow	1801.60	1964.70	1989.39	1.26%	10.42%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.89%	1.96%	2.01%	5 bps	12 bps

*Equities data reflect price changes, not total return.

Last Week's Headlines

- Congress agreed to extend the reduction in payroll taxes, which had been scheduled to revert on March 1 to 6.2% (12.4% for the self-employed), through the end of 2012. The legislation also will extend long-term unemployment benefits for up to 99 weeks, but will gradually reduce the duration of benefits over the year to 73 weeks. The provisions will be offset in part by, among other things, requiring federal workers hired starting next year to increase contributions to their pension system, and auctioning broadcast spectrum bandwidth to permit expansion of broadband wireless services.
- After delaying a decision last week, eurozone finance ministers approved €130 billion in financial assistance for Greece, which the country needs in order to redeem €14.5 billion worth of bonds on March 20. Under the agreement, private bondholders will agree to swap their bonds for ones worth 53.5% less, which will help Greece reduce its debt from the current 164% of its gross domestic product to 120.5% by 2020. The International Monetary Fund will review the proposal in early March to determine its contribution to the bailout.
- Guilt by association: Moody's not only cut bond ratings for several European countries, but issued a negative outlook for Aaa-rated France, Britain, and Austria because of their exposure to potential fallout from other European countries. Moody's said it downgraded Spain's rating by two notches, putting it even with Italy at A3, because of skepticism that Spain would be able to meet its deficit reduction target. Italy, Portugal, and three much smaller countries were downgraded by one notch. Meanwhile, French and Belgian securities regulators lifted a ban imposed last August on short-selling of financial shares.
- Wholesale inflation rose 1% in January; the Bureau of Labor Statistics said the 4.1% year-over-year increase was the smallest since the previous January. The average cost of raw materials was up 1.5% for the month. Meanwhile, consumer inflation rose 0.2% during the month; the broad-based increase put the 12-month inflation rate at 2.9%.
- January's retail sales were up a modest 0.4% last month, according to the Commerce Department; that's 5.8% higher than last

January. Unlike the previous month, general merchandise accounted for most of the increase, while auto sales, which had a big month in December, were down.

- U.S. manufacturing continued to improve in January. The Federal Reserve's Empire State manufacturing survey hit 19.5, its highest level in over a year, and the Philly Fed index was at its highest level (10.2) since October.
- The Conference Board's index of leading economic indicators rose for the fourth consecutive month. Improving financial and credit indicators and higher average workweek levels contributed to a 0.4% increase that pushed the index to 94.9.
- Housing starts were up 1.5% in January, and were 9.9% higher than last January. According to the Commerce Department, most of the activity was in multifamily building; single-family starts fell 1%. Residential building permits were 0.7% above December's level and a whopping 19% higher than the previous January. Meanwhile, the Mortgage Bankers Association said the rate of new delinquencies and foreclosure filings in 2011's last quarter fell to levels not seen in the last three years. According to the MBA, 7.6% of all mortgages were either delinquent or behind on at least one payment; that's lower than Q4 2010's 8.25%.
- Swiss police confiscated \$6 trillion worth of counterfeit U.S. Treasury bonds from three Zurich safe-deposit boxes as part of an Italian police investigation. If real, they would represent roughly 40% of the total U.S. national debt.

Eye on the Week Ahead

Investors will get their first chance to assess the potential impact of the decision on the Greek bailout. German economic data also could receive attention, while housing data will dominate a week that's light on domestic economic news.

Key dates and data releases: home resales (2/22); new home sales, consumer sentiment (2/24).

Data sources: Includes data provided by Brounes & Associates. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results.

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. 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.

INVESTMENT TEAM

J.T. Underwood - Chief Investment Strategist

Alec Macmillan, CFA - Sr. Portfolio Manager & Market Strategist

Jon E. Molesworth, AIF® - Director of Investment Services

Christopher C. Ng, CTFA - Sr. Portfolio Manager

B. Randy Haas - Sr. Portfolio Manager

Marianne D. Loew, CFA - Sr. Portfolio Manager

Constance B. Aldrich - Investment Support Manager

Julie A. Courtemanche - Investment Support Specialist

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