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Market Month: January 2012

The Markets

Believers in the January indicator, rejoice! If the first month holds any significance as a barometer of how equities might perform during the rest of the year, January clearly got 2012 off to a good start. For the first time since October 2010, the Nasdaq had the strongest monthly gains of the four domestic indices; it's now up more than 20% from its 2011 low last October and is just 60 points away from its 2011 closing high. The small caps of the Russell 2000 weren't far behind for the month, and their 30% gain since last October has outpaced the rest of the domestic indices. The blue chips of the S&P 500 and the Dow industrials had their best January since 1997, and are up more than 19% and 18% respectively since last October. Even the Global Dow saw renewed investor optimism despite a flurry of credit rating downgrades in Europe.

Demand for U.S. Treasuries remained steady, especially after the Fed forecast low interest rates through late 2014. The euro continued to suffer, hitting \$1.27 at one point before rebounding to end the month just under \$1.32. Oil prices hovered around \$100 a barrel, and after retreating for months last fall, gold turned upward once again to end January at roughly \$1730 an ounce.

| Market/Index | 2011 Close | Prior Month | As of 1/31 | Month Change | YTD Change* |
|---------------------------|------------|-------------|------------|--------------|-------------|
| DJIA | 12217.56 | 12217.56 | 12632.91 | 3.40% | 3.40% |
| Nasdaq | 2605.15 | 2605.15 | 2813.84 | 8.01% | 8.01% |
| S&P 500 | 1257.60 | 1257.60 | 1312.40 | 4.36% | 4.36% |
| Russell 2000 | 740.92 | 740.92 | 792.82 | 7.00% | 7.00% |
| Global Dow | 1801.60 | 1801.60 | 1915.01 | 6.29% | 6.29% |
| Fed. Funds | .25% | .25% | .25% | 0 bps | 0 bps |
| 10-year Treasuries | 1.89% | 1.89% | 1.83% | -6 bps | -6 bps |

*Equities data reflect price changes, not total return.

The Month in Review

- Unemployment was down for the fourth straight month; December's 8.5% was almost a full percentage point lower than the previous December's 9.4%. The Bureau of Labor Statistics said the biggest gains were in transportation/warehousing, retail, and manufacturing.
- The U.S. economy grew at an annual rate of 2.8% during 2011's final quarter. The initial estimate, which could be subject to revision, was higher than Q3's 1.8%, but the Bureau of Labor Statistics said higher inventory levels were a major factor.
- Standard & Poor's downgraded its long-term ratings on nine eurozone countries as well as the European Financial Stability Fund. The downgrades had little impact on financial markets, which seemingly chose to focus on the renewed possibility of a deal on Greek debt. However, an agreement with bondholders had not been reached by month's end. Meanwhile, yields on Portuguese 10-year bonds exceeded 16%, a euro-era record for the country, while Italy was able to auction 10-year bonds at just over 6%.
- The Federal Reserve said it expects to keep interest rates at "exceptionally low" levels through at least late 2014, longer than previously anticipated.
- Inflation at the consumer level was unchanged in December, helped by declining energy costs, but food and energy costs helped

push consumer inflation to 3% in 2011, almost twice 2010's 1.5% increase but still within the Fed's comfort zone. At the wholesale level, food and energy costs cut inflation by 0.1% in December, but for all of 2011, wholesale inflation was up 4.8%, an increase from 2010's 3.8%.

- Interest rates on 30-year fixed-rate mortgages hit a new all-time low of 3.88%, according to Freddie Mac, marking the seventh consecutive week below 4%. According to the National Association of Realtors®, home resales were up 5% in December, and the Commerce Department said new housing starts of single-family homes rose 4.4%. However, the Commerce Department also said December sales of new homes were 2.2% below November and 7.7% below December 2010. Home prices continued to fall; the 20-city S&P/Case-Shiller index was down 3.7% from a year ago.

Eye on the Month Ahead

As Greece draws closer to the scheduled date for receipt of its next bailout installment, an agreement with private bondholders will become increasingly critical. As the Q4 corporate earnings season comes to a close, investors will try to gauge whether the results can be sustained into the new year, and whether large caps will continue to be eclipsed by the Nasdaq and small caps.

Key dates and data releases: auto sales, U.S. manufacturing, construction spending (2/1); weekly new jobless claims, business productivity and labor costs (2/2); unemployment/payrolls, U.S. services sector, factory orders (2/3); international trade, consumer sentiment (2/10); retail sales, business inventories (2/14); Empire State manufacturing survey, industrial production, Federal Reserve Open Market Committee minutes, international capital flows (2/15); housing starts, wholesale inflation, Philadelphia Fed survey (2/16); consumer inflation, index of leading economic indicators (2/17); home resales (2/22); new home sales, consumer sentiment (2/24); pending home sales (2/27); durable goods orders, home prices, consumer confidence (2/28); 2nd estimate of Q4 gross domestic product, Fed beige book release (2/29).

Data sources for non-equities performance: U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold, NY close); Oanda/FX Street (currency exchange rates). 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. Equities data reflects price changes, not total return.

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. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.

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