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Second-Quarter 2013 Market Review ~ Stocks Mixed, Bonds Slip

July 2013 - It was a mixed second quarter for stocks, as broad domestic indexes continued higher and international indexes all closed lower. Emerging Markets was at the bottom, with a drop of nearly 8.0%. Hard assets took it on the chin, with Real Estate losing 4.3% and Commodities sinking 9.5%. It was the best first half for domestic stocks since the late 1990s, with gains in the low-to-mid teens.

With interest rates on the rise, bond indices were down across-the-board. The sell-off hit U.S. Treasury TIPs, sliding 7.1%, and International Emerging Markets, falling 5.1%. Broader indexes were off in the 2.0% to 3.0% range.

The turn in interest rates began in May when the yield on the 10-year U.S. Treasury bond rose above 2.0% and was accelerated in June after Federal Reserve comments about its monetary policies. The Fed left its short-term interest rate policy unchanged during the quarter and maintained its monthly purchases of \$85 billion of Treasury and mortgage-backed securities in its efforts to keep interest rates low and support the economy.

However, bond yields jumped on Fed comments that they may begin to taper securities purchases later this year and end the quantitative easing entirely in 2014 if the unemployment rate falls to about 7%. It was stressed that the decision to reduce or end the bond purchases would depend on future economic data. Further, the central bank maintained its trigger points of a 6.5% unemployment rate or an inflation rate in excess of 2.5% for when they will consider raising short-term interest rates. The outlook is for short-term interest rates to remain near zero until sometime in 2015.

At quarter-end, the yield on the 10-year Treasury note was 2.49%, up 64 and 73 basis points for the quarter and year-to-date, respectively (the yield as of July 19th was 2.48%).

Below are rates of return for selected market indices for the second quarter of 2013, year-to-date 2013, and the three, five, and 10-year compound annual returns as of December 31, 2012.

	<u>2Q:2013</u>	<u>YTD-2012</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Equity (Stock) Indices</u>					
Domestic Large Cap					
Russell 1000 - Growth	2.06%	11.80%	11.35%	3.12%	7.52%
Russell 1000 - Value	3.20%	15.90%	10.86%	0.59%	7.38%
Russell 1000 - Core	2.65%	13.91%	11.12%	1.92%	7.52%
Domestic Small Cap					
Russell 2000 - Growth	3.74%	17.44%	12.82%	3.49%	9.80%
Russell 2000 - Value	2.47%	14.39%	11.57%	3.55%	9.50%
Russell 2000 - Core	3.08%	15.86%	12.25%	3.56%	9.72%
Real Estate (FTSE EPRA/NAREIT Global)	-4.33%	1.27%	12.71%	0.66%	NA
Commodity (Dow Jones - UBS)	-9.46%	-10.50%	-0.03%	-5.54%	2.35%
International					
MSCI EAFE Developed Large Cap	-0.73%	4.47%	4.04%	-3.21%	8.70%
MSCI EAFE Developed Small Cap	-2.35%	5.93%	7.52%	-0.51%	12.34%
MSCI Emerging Markets	-7.95%	-9.40%	4.98%	-0.61%	16.88%
Global - MSCI All Country IMI	-0.29%	6.72%	7.57%	-0.20%	9.14%



	<u>2Q:2013</u>	<u>YTD-2012</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Fixed-Income (Bond) Indices</u>					
Barclays Capital					
Global Aggregate	-2.94%	-4.83%	5.26%	5.50%	6.00%
U.S. Aggregate	-2.32%	-2.44%	6.19%	5.95%	5.18%
U.S. Treasury TIPs	-7.06%	-7.39%	8.90%	7.04%	6.65%
U.S. Corporate High Yield	-1.43%	1.42%	11.86%	10.33%	10.62%
Municipal	-2.97%	-2.69%	6.57%	5.91%	5.10%
International Emerging Markets	-5.13%	-6.52%	12.50%	10.25%	11.63%

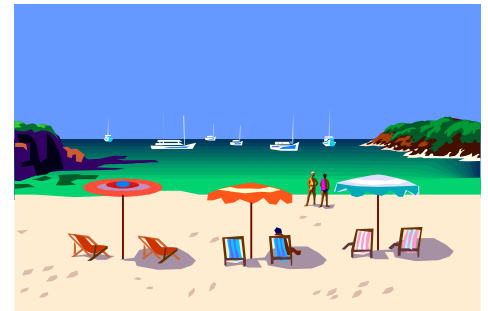
Source: russell.com, reit.com, djindexes.com, msci.com, barcap.com

Summertime

In the spirit of summertime, this column is on vacation. Enjoy!

Meanwhile, what interests you? Please pass along the topics you would like to see covered in future newsletters.

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