

## The Economy

Brian Wesbury, Chief Economist at First Trust Advisors L.P., is forecasting a rise in real U.S. GDP growth from around 2.0% in 2012 to 2.75% in 2013. The average rate of U.S. GDP growth from 6/09 (end of last recession) through 9/12 was only 2.1%, according to the Bureau of Economic Analysis. Research from Harvard's Carmen Reinhart and Kenneth Rogoff (Reinhart-Rogoff debt threshold), found that advanced economies with debt levels running above 90% of annual GDP (involved 22 countries) grew 2.3% a year, on average, compared to an average growth rate of 3.5% when below the 90% threshold, according to Bloomberg. The U.S. has been above the 90% threshold the past two years and is expected to remain there through 2017, according to the OMB.

<b>Consumer Confidence</b> <b>65.1</b> (Dec) 73.7 (Nov)	<b>Crude Oil (Mo.-End)</b> <b>\$91.82</b> (Dec) \$88.91 (Nov)	<b>Personal Spending</b> <b>0.4%</b> (Nov) Oct was -0.2%	<b>ISM Manufacturing</b> <b>50.7</b> (Dec) 49.5 (Nov)	<b>ISM Non-Manufacturing</b> <b>56.1</b> (Dec) 54.7 (Nov)
<b>Gold (Mo.-End)</b> <b>\$1675.80</b> (Dec) \$1710.90 (Nov)	<b>Natural Gas (Mo.-End)</b> <b>\$3.35</b> (Dec) \$3.56 (Nov)	<b>Factory Orders</b> <b>0.0%</b> (Nov) Oct was 0.8%	<b>New Home Sales</b> <b>377,000</b> (Nov) 368,000 (Oct)	<b>Existing Home Sales</b> <b>5.04M</b> (Nov) 4.79M (Oct)

## The Stock Market

<b>Indices</b> (Source: Bloomberg)	<b>Dec 2012</b>	Ninety-seven out of the 132 subsectors (73%) that comprise the S&P 500 posted a gain in December, up from 79 (60%) last month, according to S&P. Financials was the top performing sector in December as well as for 2012, up 4.8% and 28.9%, respectively. In December, the dividend-payers (403) in the S&P 500 (equal weight) posted a total return of 2.08%, vs. 3.44% for the non-payers (97), according to Standard & Poor's. In 2012, the payers were up 16.14%, vs. a gain of 19.20% for the non-payers. The number of dividend increases in 2012 totaled 333, up from 320 increases in 2011. Fifteen companies initiated dividends, down from 22 a year ago. Eleven dividends were cut, up from five cuts a year ago. The S&P 500 did not post a single closing price value in 2012 that was below its 2011 year-end close of 1257.60, according to Bespoke Investment Group. In other words, the index was up, on a year-to-date basis, every trading day of 2012. Since 1928, only eight other calendar years (1943, 1951, 1958, 1964, 1967, 1975, 1976 & 1979) accomplished this feat. The S&P 500's average price-only return for these nine years (including 2012) was 20.37%, according to Bespoke. The index was up 13.41% (price-only) in 2012. With respect to the previous eight occasions, the average price-only return for the following year was 10.52%. The S&P 500 was up 2.54% its first trading day of 2013.
S&P 500 DJIA NASDAQ 100 S&P 400 Russell 2000 Russell 3000 MSCI World (ex U.S.) (USD) MSCI Emerging Markets (USD)	0.9% 0.8% -0.5% 2.2% 3.6% 1.2% 3.0% 4.9%	16.0% 10.2% 18.3% 17.9% 16.3% 16.4% 16.4% 18.2%
<b>Growth/Value</b> (Source: Bloomberg)	<b>Dec 2012</b>	end close of 1257.60, according to Bespoke Investment Group. In other words, the index was up, on a year-to-date basis, every trading day of 2012. Since 1928, only eight other calendar years (1943, 1951, 1958, 1964, 1967, 1975, 1976 & 1979) accomplished this feat. The S&P 500's average price-only return for these nine years (including 2012) was 20.37%, according to Bespoke. The index was up 13.41% (price-only) in 2012. With respect to the previous eight occasions, the average price-only return for the following year was 10.52%. The S&P 500 was up 2.54% its first trading day of 2013.
S&P 500 Growth S&P 500 Value S&P 400 Growth S&P 400 Value Russell 2000 Growth Russell 2000 Value	-0.1% 2.2% 1.4% 3.3% 2.9% 4.2%	14.7% 17.8% 17.6% 19.1% 14.6% 18.0%

<b>U.S. Dollar Index (DXY)</b> <b>-0.5%</b> (Dec) -0.5% (2012) \$ was up 1.5% in '11	<b>CBOE Total Equity Options</b> (# of contracts in millions) Dec: <b>27.9</b> (-12.3%) Nov: 31.8 (-9.4%) Record 7/08: 67.2 million	<b>Short Interest (NYSE)</b> Dec 15: <b>13.7B</b> (+0.7%) Nov 15: 13.6B (+1.5%) Record 7/08: 18.61 billion shares	<b>VIX Volatility Index (S&amp;P 500)</b> <b>18.02</b> (12/31) 15.87 (11/30) Record 11/20/08: 80.86
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## The Bond Market

<b>Index</b> (Source: Barclays)	<b>Dec 2012</b>	<b>Yield</b>	The yield on the benchmark 10-Year T-Note rose 14 bps. to 1.76% in December. The yield closed 2011 at 1.88%, so there was little change in yield on a y-o-y basis despite the systematic bond buying (quantitative easing initiatives) by the Federal Reserve. A recent survey of the Treasury bond market's 21 primary dealers (trade directly with the Federal Reserve and underwrite Treasury debt sales) produced a median 10-Year T-Note yield estimate of 2.25% for the close of 2013, according to <i>The Wall Street Journal</i> . Because the deal struck to avoid the so-called fiscal cliff occurred after the end of 2012, one could speculate that the sell-off in municipal bonds in December could have been mitigated had the top 1% or so of federal tax payers known that their marginal income tax rate was about to permanently rise from 35% to 39.6%.
U.S. Treasury: Intermediate GNMA 30 Year Municipal Bond (22+) U.S. Aggregate Intermediate Corporate U.S. Corporate High Yield Global Aggregate Global Emerging Markets	-0.20% 0.13% -1.88% -0.14% 0.08% 1.58% -0.33% 1.18%	1.71% 2.44% 11.26% 4.21% 8.84% 15.81% 4.32% 18.14%	0.59% 2.26% 3.32% 1.74% 2.04% 6.13% 1.70% 4.28%

<b>Key Rates as of December 31</b> Fed Funds 0-0.25% 2-Yr. T-Note 0.25% 10-Yr. T-Bond 1.76% 30-Yr. Mortgage 3.54% Bond Buyer 40 4.10% (Source: Bloomberg)	<b>Key Yield Spread</b> The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 496 basis points on 12/31/12, down from 540 on 11/30/12. It was 669 on 12/31/11. (Source: Bloomberg)	<b>2012 Debt Issuance Through November</b> (Source: Thomson Reuters)																		
		<table border="1"> <thead> <tr> <th>Debt Category</th> <th>\$ Amount</th> <th>% change over '11</th> </tr> </thead> <tbody> <tr> <td>Treasury</td> <td>\$2.02 Trillion</td> <td>+5.8%</td> </tr> <tr> <td>Corporate</td> <td>\$1.28 Trillion</td> <td>+30.8%</td> </tr> <tr> <td>Convertible</td> <td>\$17.1 Billion</td> <td>-16.6%</td> </tr> <tr> <td>Asset-Backed</td> <td>\$190.6 Billion</td> <td>+57.9%</td> </tr> <tr> <td>Municipal</td> <td>\$346.9 Billion</td> <td>+29.9%</td> </tr> </tbody> </table>	Debt Category	\$ Amount	% change over '11	Treasury	\$2.02 Trillion	+5.8%	Corporate	\$1.28 Trillion	+30.8%	Convertible	\$17.1 Billion	-16.6%	Asset-Backed	\$190.6 Billion	+57.9%	Municipal	\$346.9 Billion	+29.9%
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Equity funds reported net *outflows* totaling \$23.2 billion in 11/12, vs. \$16.4 billion of net *outflows* in 10/12, according to the Investment Company Institute. Bond funds reported net *inflows* totaling \$23.7 billion, vs. \$34.5 billion of net *inflows* in 10/12. Money Market fund net *inflows* totaled \$68.3 billion, vs. \$3.5 billion of net *outflows* in 10/12. Y-T-D through Nov., equity funds reported net *outflows* totaling \$122.5 billion, vs. \$296.3 billion of net *inflows* for bond funds (municipals had net *inflows* totaling \$52.7B) and \$76.9 billion of net *outflows* for MMFs.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	1565.15	10/09/07	676.53	03/09/09	1426.19	-8.88%	16.00%	2.19%
S&P 500 Growth	793.29	09/19/12	363.99	03/09/09	761.33	-4.03%	14.71%	1.86%
S&P 500 Value	836.19	07/13/07	307.16	03/09/09	657.37	-21.39%	17.77%	2.64%
S&P 400	1030.15	12/20/12	385.18	03/12/03	1020.43	-0.94%	17.88%	1.84%
S&P 400 Growth	467.79	12/20/12	166.30	03/12/03	463.62	-0.89%	17.62%	1.25%
S&P 400 Value	361.18	06/04/07	141.27	03/12/03	353.01	-2.26%	19.10%	2.48%
S&P 100	729.79	10/09/07	322.13	03/09/09	646.61	-11.40%	16.10%	2.30%
DJIA	14164.53	10/09/07	6547.05	03/09/09	13104.14	-7.49%	10.24%	2.60%
NASDAQ 100	2864.03	09/19/12	951.90	02/13/03	2660.93	-7.09%	18.35%	1.36%
Russell 2000	865.29	04/29/11	343.26	03/09/09	849.35	-1.84%	16.35%	2.00%
Russell 2000 Growth	497.75	04/29/11	182.25	03/12/03	483.32	-2.90%	14.59%	1.29%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	1130.98	-11.41%	18.05%	2.67%
Russell 3000	907.58	10/09/07	389.61	03/09/09	846.37	-6.74%	16.41%	2.17%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	4261.07	-20.80%	16.41%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	84.92	03/11/03	421.47	-10.96%	18.22%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2756.10	02/14/03	29836.05	-33.16%	-1.42%	4.10%
RTS/Russia (USD)	2487.92	05/19/08	336.08	01/27/03	1530.41	-38.49%	15.97%	3.79%
Bombay SE 500/India (USD)	226.04	01/07/08	22.28	04/25/03	137.86	-39.01%	28.73%	1.45%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	364.19	-55.05%	6.92%	2.51%
KOSPI/South Korea (USD)	2.29	10/31/07	0.41	03/17/03	1.87	-18.62%	17.71%	1.21%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	2923.36	-28.39%	27.73%	3.03%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	1094.39	-44.97%	22.57%	4.11%
S&P Consumer Discretionary	380.13	12/18/12	125.72	03/09/09	376.06	-1.07%	24.14%	1.69%
S&P Consumer Staples	376.75	10/05/12	182.72	03/10/03	360.78	-4.24%	11.08%	3.17%
S&P Energy	668.81	05/20/08	168.29	01/27/03	532.96	-20.31%	4.64%	2.22%
S&P Utilities	223.91	12/10/07	86.30	02/12/03	177.66	-20.66%	1.31%	4.13%
S&P Financials	509.55	02/20/07	81.74	03/06/09	221.24	-56.58%	28.92%	1.84%
S&P Banks	414.38	02/20/07	49.02	03/05/09	158.18	-61.83%	24.26%	2.36%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	514.43	-23.96%	19.81%	3.39%
S&P Health Care	478.65	10/16/12	252.84	03/05/09	462.95	-3.28%	17.89%	2.14%
S&P Pharmaceuticals	394.92	10/18/12	214.50	03/03/09	373.19	-5.50%	14.43%	3.25%
NYSE Arca Biotechnology	1604.76	10/05/12	311.69	03/11/03	1547.03	-3.60%	41.88%	0.08%
S&P Information Technology	507.31	09/17/12	198.51	11/20/08	463.82	-8.57%	14.81%	1.39%
Philadelphia Semiconductor	560.65	01/12/04	171.32	11/20/08	384.06	-31.50%	7.16%	1.71%
S&P Telecom Services	181.06	05/31/07	84.18	03/11/03	146.04	-19.34%	18.31%	4.67%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	328.75	-13.75%	15.42%	2.37%
S&P Materials	285.91	05/16/08	105.98	03/11/03	237.62	-16.89%	15.24%	2.49%
Philadelphia Gold & Silver	228.95	04/08/11	62.21	03/27/03	165.60	-27.67%	-6.71%	1.55%
Reuters/Jefferies CRB	473.52	07/02/08	200.34	03/02/09	295.01	-37.70%	-3.37%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	187.82	-5.07%	17.82%	7.59%
Merrill Lynch High Yield Master II	315.10	12/31/12	117.31	12/31/02	315.10	0.00%	15.62%	6.72%