

The Economy

Real GDP growth was -0.1% in Q4'12. Brian Wesbury, Chief Economist at First Trust Advisors L.P., believes the economic drag from the pullback in government spending and reductions in inventories will prove to be a short-term blip. Wesbury is still forecasting that real GDP will grow between 2.5% and 3.0% in 2013. There are many reasons to feel optimistic moving forward. Nonfarm payrolls have grown by over 150,000 per month in six of the past seven months. The core rate of inflation sits at 1.9%, below the Fed's target rate of 2.0%. The default rate on U.S. speculative-grade debt is expected to hover near 3.0% in 2013, well below its 4.8% historical average since 1983, according to Moody's. While the recovery may be evolving too slowly for some – it's still a recovery.

Consumer Confidence 58.6 (Jan) 65.1 (Dec)	Crude Oil (Mo.-End) \$97.49 (Jan) \$91.82 (Dec)	Personal Spending 0.2% (Dec) Nov was 0.4%	ISM Manufacturing 53.1 (Jan) 50.7 (Dec)	ISM Non-Manufacturing 55.2 (Jan) 56.1 (Dec)
Gold (Mo.-End) \$1660.60 (Jan) \$1675.80 (Dec)	Natural Gas (Mo.-End) \$3.34 (Jan) \$3.35 (Dec)	Factory Orders 1.8% (Dec) Nov was 0.0%	New Home Sales 369,000 (Dec) 377,000 (Nov)	Existing Home Sales 4.94M (Dec) 5.04M (Nov)

The Stock Market

Indices (Source: Bloomberg)

	Jan	12-mo.
S&P 500	5.2%	16.8%
DJIA	5.9%	12.7%
NASDAQ 100	2.7%	12.1%
S&P 400	7.2%	18.5%
Russell 2000	6.3%	15.5%
Russell 3000	5.5%	16.9%
MSCI World (ex U.S.) (USD)	4.9%	15.9%
MSCI Emerging Markets (USD)	1.4%	7.6%

Growth/Value (Source: Bloomberg)

	Jan	12-mo.
S&P 500 Growth	3.9%	14.5%
S&P 500 Value	6.5%	19.5%
S&P 400 Growth	7.0%	17.8%
S&P 400 Value	7.4%	20.3%
Russell 2000 Growth	6.6%	13.6%
Russell 2000 Value	6.0%	17.3%

One hundred and twenty-one out of the 132 subsectors (92%) that comprise the S&P 500 posted a gain in January, up from 97 (73%) last month, according to S&P. Energy was the top performing sector, up 7.6%. In Jan., the dividend-payers (404) in the S&P 500 (equal weight) posted a total return of 6.11%, vs. 7.94% for the non-payers (96), according to Standard & Poor's. For the 12-month period ended Jan., payers were up 17.50%, vs. a gain of 18.93% for the non-payers. The number of dividend increases in Jan. totaled 30, down from 32 increases a year ago. There were three decreases, up from zero a year ago. Data from TrimTabs showed that investors poured a record \$77.4 billion into traditional stock mutual funds and equity ETFs in January, according to USA TODAY. January's total was \$23.7 billion higher than the previous record, set in Feb. 2000. The current bull market in the S&P 500 has gone 486 calendar days without experiencing a pullback of 10% on a closing basis, the 10th longest streak in the history of the index, according to Bespoke Investment Group. Its last 10% correction concluded on 10/3/11. Since then, the S&P 500 has appreciated 40.42% (price-only). The three longest S&P 500 rallies without a 10% correction were as follows: 2,553 days/+232.74% (10/11/90-10/7/97); 1,673 days/+95.47% (3/11/03-10/9/07); and 1,205 days/+75.85% (10/23/62-2/9/66).

U.S. Dollar Index (DXY) -0.7% (Jan) -0.5% (2012) \$ was up 1.5% in '11	CBOE Total Equity Options (# of contracts in millions) Jan: 32.6 (+16.8%) Dec: 27.9 (-12.3%) Record 7/08: 67.2 million	Short Interest (NYSE) Jan 15: 12.8B (-6.6%) Dec 15: 13.7B (+0.7%) Record 7/08: 18.61 billion shares	VIX Volatility Index (S&P 500) 14.28 (1/31) 18.02 (12/31) Record 11/20/08: 80.86
---	--	--	---

The Bond Market

Index (Source: Barclays)

	Jan	12-mo.	Yield
U.S. Treasury: Intermediate	-0.41%	0.79%	0.67%
GNMA 30 Year	-0.61%	1.55%	2.60%
Municipal Bond (22+)	0.85%	8.11%	3.25%
U.S. Aggregate	-0.70%	2.59%	1.90%
Intermediate Corporate	-0.34%	6.13%	2.14%
U.S. Corporate High Yield	1.34%	13.91%	5.87%
Global Aggregate	-0.91%	1.67%	1.84%
Global Emerging Markets	-0.34%	14.87%	4.41%

The yield on the benchmark 10-Year T-Note rose 23 bps. to 1.99% in January. The blip up in interest rates plus the sharp increase in stock fund inflows in January (see The Stock Market) appears to be inspiring the financial media to write about the potential for a shift in sentiment away from bonds to equities. BofA Merrill Lynch's credit survey in Jan. found that 95% of the 130 respondents believe such a shift is coming, but 65% do not see it happening until 2014 or after, according to *Barron's*. BofA ML noted that it believes investors would begin an "orderly" rotation out of bonds once the yield on the 10-Year T-Note reached 2.5%, but would escalate to a "rapid" rotation if the rate were to rise above 3.0%. A shift may be happening within the bond market as leveraged loan (floating rate) funds took in a record \$927 billion the last week of Jan.

Key Rates as of January 31		Key Yield Spread		2012 Debt Issuance		
		The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 453 basis points on 1/31/13, down from 496 on 12/31/12. It was 617 on 1/31/12.		(Source: Thomson Reuters)		
				Debt Category	\$ Amount	% change over '11
Fed Funds	0-0.25%			Treasury	\$2.32 Trillion	+10.2%
2-Yr. T-Note	0.26%			Corporate	\$1.35 Trillion	+33.8%
10-Yr. T-Bond	1.99%			Convertible	\$19.7 Billion	-5.1%
30-Yr. Mortgage	3.60%			Asset-Backed	\$199.4 Billion	+59.8%
Bond Buyer 40	4.00%			Municipal	\$379.0 Billion	+28.6%
(Source: Bloomberg)		(Source: Bloomberg)				

Equity funds reported net *outflows* totaling \$30.5 billion in 12/12, vs. \$23.2 billion of net *outflows* in 11/12, according to the Investment Company Institute. Bond funds reported net *inflows* totaling \$7.4 billion, vs. \$23.7 billion of net *inflows* in 11/12. Money Market fund net *inflows* totaled \$75.6 billion, vs. \$68.3 billion of net *outflows* in 11/12. In 2012, equity funds reported net *outflows* totaling \$152.9 billion, vs. \$303.8 billion of net *inflows* for bond funds (municipals had net *inflows* totaling \$49.6B) and \$1.2 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	1498.11	-4.28%	5.18%	2.13%
S&P 500 Growth	795.97	01/29/13	363.99	03/09/09	790.74	-0.66%	3.94%	1.80%
S&P 500 Value	836.19	07/13/07	307.16	03/09/09	698.81	-16.43%	6.50%	2.51%
S&P 400	1096.70	01/25/13	385.18	03/12/03	1093.40	-0.30%	7.22%	1.77%
S&P 400 Growth	498.65	01/25/13	166.30	03/12/03	495.91	-0.55%	7.02%	1.20%
S&P 400 Value	379.39	01/29/13	141.27	03/12/03	378.95	-0.12%	7.44%	2.37%
S&P 100	729.79	10/09/07	322.13	03/09/09	674.89	-7.52%	4.55%	2.26%
DJIA	14164.53	10/09/07	6547.05	03/09/09	13860.58	-2.15%	5.91%	2.49%
NASDAQ 100	2864.03	09/19/12	951.90	02/13/03	2731.53	-4.63%	2.66%	1.35%
Russell 2000	907.31	01/29/13	343.26	03/09/09	902.09	-0.58%	6.26%	1.91%
Russell 2000 Growth	519.19	01/25/13	182.25	03/12/03	514.94	-0.82%	6.58%	1.23%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	1197.68	-6.18%	5.96%	2.55%
Russell 3000	907.58	10/09/07	389.61	03/09/09	891.79	-1.74%	5.49%	2.09%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	4470.67	-16.90%	4.92%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	84.92	03/11/03	427.28	-9.73%	1.38%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2756.10	02/14/03	30065.65	-32.65%	0.77%	4.47%
RTS/Russia (USD)	2487.92	05/19/08	345.23	02/06/03	1622.13	-34.80%	6.23%	3.62%
Bombay SE 500/India (USD)	226.04	01/07/08	22.28	04/25/03	144.03	-36.28%	4.50%	1.42%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	383.57	-52.66%	5.32%	2.35%
KOSPI/South Korea (USD)	2.29	10/31/07	0.41	03/17/03	1.80	-21.38%	-3.39%	0.58%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	3059.86	-25.04%	4.67%	2.98%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	1156.85	-41.82%	5.99%	4.04%
S&P Consumer Discretionary	403.37	01/25/13	125.72	03/09/09	397.27	-1.51%	5.69%	1.63%
S&P Consumer Staples	382.27	01/29/13	182.72	03/10/03	381.12	-0.30%	5.84%	3.05%
S&P Energy	668.81	05/20/08	173.52	02/12/03	573.41	-14.26%	7.62%	2.09%
S&P Utilities	223.91	12/10/07	86.30	02/12/03	186.04	-16.91%	4.87%	4.03%
S&P Financials	509.55	02/20/07	81.74	03/06/09	234.02	-54.07%	5.98%	1.79%
S&P Banks	414.38	02/20/07	49.02	03/05/09	163.99	-60.43%	4.12%	2.47%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	532.30	-21.32%	3.66%	3.30%
S&P Health Care	500.18	01/29/13	252.84	03/05/09	496.54	-0.73%	7.48%	2.02%
S&P Pharmaceuticals	404.27	01/29/13	214.50	03/03/09	400.10	-1.03%	7.62%	2.96%
NYSE Arca Biotechnology	1680.12	01/25/13	311.69	03/11/03	1661.17	-1.13%	7.38%	0.07%
S&P Information Technology	507.31	09/17/12	198.51	11/20/08	470.05	-7.34%	1.36%	1.39%
Philadelphia Semiconductor	560.65	01/12/04	171.32	11/20/08	412.73	-26.38%	7.52%	1.64%
S&P Telecom Services	181.06	05/31/07	84.18	03/11/03	149.23	-17.58%	3.23%	4.60%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	347.22	-8.90%	5.65%	2.28%
S&P Materials	285.91	05/16/08	105.98	03/11/03	246.55	-13.77%	3.87%	2.46%
Philadelphia Gold & Silver	228.95	04/08/11	62.21	03/27/03	149.68	-34.62%	-9.51%	1.75%
Reuters/Jefferies CRB	473.52	07/02/08	200.34	03/02/09	303.99	-35.80%	3.04%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	190.16	-3.89%	1.25%	6.02%
Merrill Lynch High Yield Master II	321.17	01/28/13	119.82	02/14/03	319.23	-0.60%	1.38%	6.52%