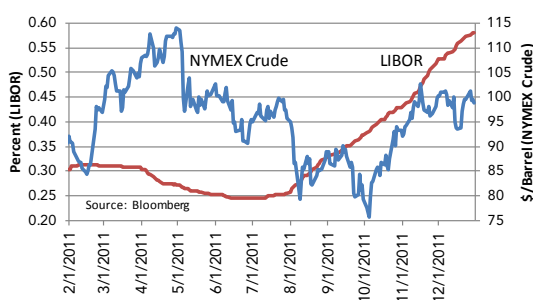


# Economic Review

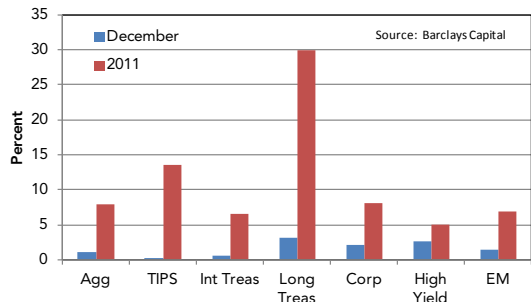
In December, domestic stock indices posted gains to cap off a turbulent year buffeted by European financial troubles. Large cap stocks were the only group to finish 2011 in the black, while international stocks were unable to stage a comeback, ending down 12.1% for developed markets and down 18.2% for emerging markets. Long-dated Treasury bonds gained 27% during the second half of the year, as the Federal Reserve sought to lower rates on the long end of the yield curve and investors sought a safe haven from European turmoil. The European Union began negotiations for a revised treaty governing financial ties between the countries. The proposed changes would impose binding caps on nations' spending and borrowing, while larger nations also supported a tax on financial transactions and a unified corporate tax rate. Skeptics noted that the current Eurozone agreement already imposes debt caps, which were easily broken, therefore new limitations to impose financial austerity also are likely to be skirted. The British Prime Minister strongly opposed strengthening ties between his country and other European nations, as the country is content with its own currency and sovereignty. The Chinese government imposed up to an additional 22% duty on many vehicles imported from the US. China already imposes a 25% duty on the same vehicles. The move was retaliation for duties imposed by the US on Chinese-made solar panels.

## LIBOR and NYMEX Crude Oil



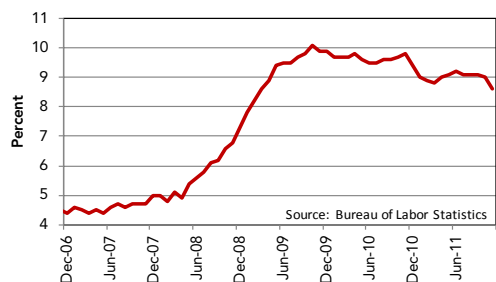
Increasing unease over sovereign debt holdings on European banks' balance sheets led to the rise in LIBOR. From a low of 0.245% in June 2011, the rate rose steadily to 0.58% at year end. To stem a potential liquidity problem, the European Central Bank offered a massive liquidity injection to the banking system. Eurozone banks borrowed a record €489 billion from the central bank, with terms lasting three years at an interest rate of 1.0%. Banks also deposited a record amount of money with the ECB, preferring to have the central bank assume the lending risks, as opposed to directly lending money to other European countries. This program will continue to provide easy liquidity for the continent, but does not solve the outstanding issue of bonds that are unlikely to be repaid in full by several nations. Either the ECB, European banks, or private investors will absorb the eventual losses over time, but until it is determined exactly which group will lose money, lending without the intervention of the ECB will remain tighter than normal.

## Bond Returns



World tensions were ratcheted up following the death of Kim Jong Il, the North Korean leader. His son, 27-year old Kim Jong Un, ascended to power and received the support of the military. His leadership style is an unknown factor, and neighboring nations fear the influence imparted by military leaders in his inner circle. Iran threatened to close the Strait of Hormuz as it staged military exercises. Iran's actions are likely a response to the increasing likelihood of Israeli forces bombing its nuclear sites and new sanctions imposed by the US. The sanctions target private and central banks that have dealings with the Iranian government, effectively cutting them off from US interaction if they transact with the Iranian government. Iran's currency fell sharply after the sanctions were announced. The sanctions, which by nature of Iran's international trade, affect nations that purchase oil from the country, and pushed oil back above \$100/barrel.

## Unemployment Rate



Congress passed a two month extension of the 2 percentage point FICA tax reduction, as the House retreated from its earlier stance opposing a short-term bill. While the tax cut is beneficial to workers, removing 16% of the funding from Social Security hastens its march toward insolvency, absent needed reforms. Although the US unemployment rate fell to 8.6%, a level last seen in September 2009, it did so as the number of workers leaving the workforce or discontinuing the search for work surpassed the number of workers added to payrolls. The employment outlook for workers 16 to 29 years old remained depressed.

## Market Returns

	As of December 31, 2011		
	December	3 Months	YTD
S&P 500	1.0%	11.8%	2.1%
Russell 1000 Value	2.0%	13.1%	0.4%
Russell 1000 Growth	-0.3%	10.6%	2.6%
Russell 2000	0.7%	15.5%	-4.2%
MSCI EAFE	-1.0%	3.3%	-12.1%
Emerging Markets	-1.2%	4.5%	-18.2%
Barclays Agg	1.1%	1.1%	7.8%
3-Month T-Bills	0.0%	0.0%	0.1%

AT&T dropped its \$39 billion bid for T-Mobile, against the likelihood of a brutal antitrust battle with an uncertain outcome. The company will pay T-Mobile a \$4 billion fee for exiting the bid.