VANTAGE CONSULTING GROUP
3500 PACIFIC AVENUE VIRGINIA BEACH, VA 23451 (757) 491-1200 FAX (757) 422-5378

Market Review

March 2013

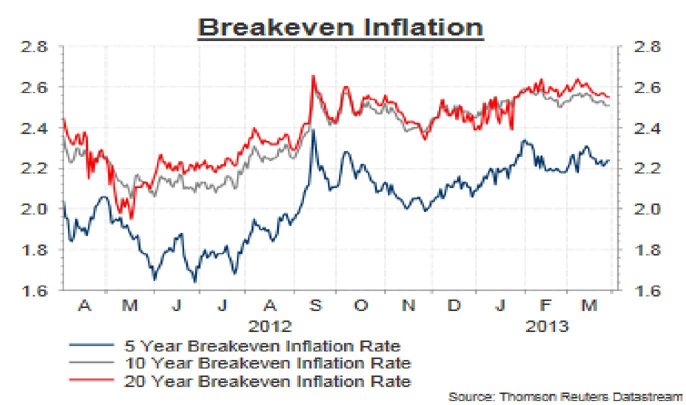
Economic Review

US real GDP increased at an annual rate of +0.4% in the fourth quarter of 2012, according to the third estimate released by Bureau of Economic Analysis (BEA). The revised estimate is 0.3% higher than the previous estimate, primarily reflecting additional further upward revisions to exports and nonresidential fixed investment. These gains were offset by further downward revisions to government spending. After this revision to fourth quarter growth, 2012 GDP growth was 2.2% compared to 1.8% in 2011.

BEA Estimates of 2012 Q4 Contributions to GDP			
Category	*Advance*	*Second*	*Third*
Real GDP	**-0.1**	**0.1**	**0.4**
Personal Consumption Expenditure	1.52	1.47	1.28
Gross Private Domestic Investment	-0.08	-0.2	0.17
Government Consumption Expenditure	-1.33	-1.38	-1.41
Net Exports	-0.25	0.24	0.33

Source- BEA

Inflation in the US ticked up slightly in February, as the headline CPI grew at a 1.98% year-over-year rate compared to 1.58% in January. The increase in CPI on a month-over-month basis of 0.7% was the largest move upward since June 2009, driven by a 9.1% increase in the price of gasoline. Core CPI, which excludes food and energy, rose only 0.2% month-over-month. The five-year breakeven inflation rate rose 6 bps in March, indicating a modest increase in concern about future inflation.



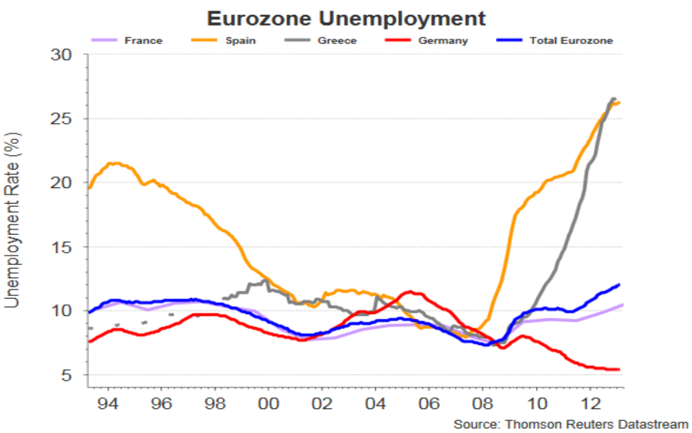
The University of Michigan's consumer sentiment index rose to 78.6 in March, up from 77.6 in February, which is the highest reading since November. The pollsters indicated that the surge in consumer confidence came from two factors: a discounting of the economic impact of federal defense cuts caused by the budget sequester, and renewed expectations for increases in employment. Manufacturing growth in the US slowed unexpectedly in March, as the ISM manufacturing index fell to 51.3 from 54.2 in February. The Non-Manufacturing index also fell in March, down to 54.4 from 56 in February. The decline in both manufacturing and non-manufacturing indices primarily reflected a slip in the prices and new orders sub-indices. The prices sub-index lost 7 and 5.8 percentage points in manufacturing and non-manufacturing sectors, respectively.

The US economy added 236,000 total jobs in February, well above the consensus estimate of 160,000. The number of jobs added in December and January was revised downward by a total of 15,000. The jobless rate fell to 7.7%, the lowest since December 2008, from 7.9% the month prior. Jobless claims, however, rose to 385,000 in the last week of March, well above the estimate of 350,000, as private sector employment was much weaker than expected.

The Federal Open Market Committee (FOMC) minutes from its February meeting revealed increasing anxiety within the committee, as members remain divided about when and how to wind down asset purchases. Chairman Ben Bernanke has pledged to continue bond purchases of $85 billion a month until the job market shows significant and sustainable progress. In testimony to Congress in mid-March, Bernanke reiterated that the Fed believes it has the toolkit necessary to safely unwind the easing program at the appropriate time, and that concerns about inflation remain muted in the short to medium term.

Global markets were unsettled in late March by the announcement of a bailout for the banking system in the peripheral Eurozone country of Cyprus. The agreement will impose a one-time tax on accounts over €100,000 in the two largest Cypriot banks. Depositors with less than €100,000 will have their accounts protected. The deal will also force the break-up of the country's second largest bank, Cyprus Popular Bank. To avoid a run on the banking systems, the Cypriot government imposed strict capital controls, including withdrawal limits, foreign transaction limits, and a ban on the use of checks. This led to protests in Cyprus and fears of a potential contagion effect, as other troubled Eurozone countries grow concerned that similar measures might be taken to solve their respective crises.

The Eurozone continues to deal with high unemployment and recession. The unemployment rate for the 17 countries in the Eurozone reached 12%, the highest since the introduction of Euro in 1999. Greece and Spain have unemployment rates above 26%, while Portugal, Ireland, Cyprus, and Slovakia continue to struggle with unemployment above 13%. Germany is the only country with year-over-year lower unemployment, falling to 5.4% from 5.6% last February. The Eurozone purchasing managers' index (PMI) for the manufacturing sector fell to a three-month low of 46.8. Readings above 50 indicate economic expansion, while readings below 50 signal contraction.

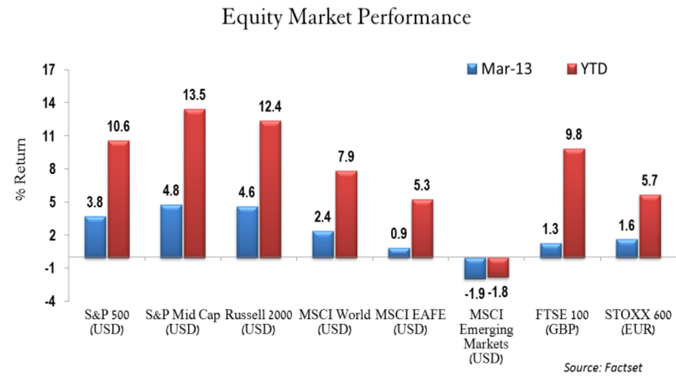


The HSBC PMI for China came in at 51.6, the highest in 11 months as the Chinese economy claws back from its worst slowdown in over a decade. Even as conditions improve in China, the recovery has been uneven, as demand from key markets such as Europe and the US has faltered. While reaffirming the country's growth target of 7.5%, Vice Premier Zhang Gaoli called for a reduction of state control in the Chinese economy to increase growth quality and revitalize foreign business.

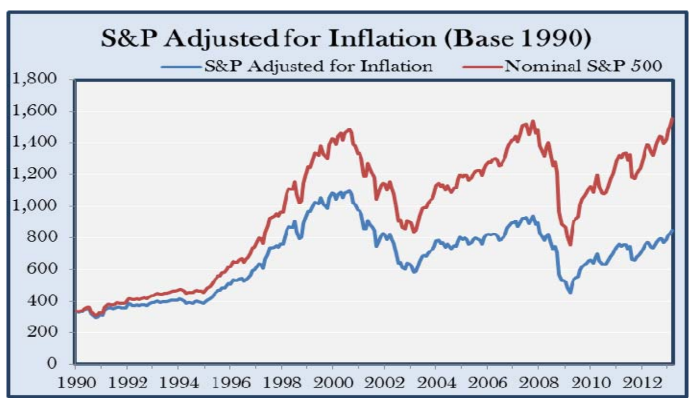
Economic data out of Japan was discouraging, as stimulus measures taken by the Japanese government thus far have proven futile. Government officials are struggling to ignite inflation in the Japanese economy as the main consumer price index fell 0.3% on a year-over-year basis. In addition, unemployment rose to 4.3% from 4.2% from the previous month, and industrial production fell for the first time in three months. Haruhiko Kuroda, recently elected to the head post at the Bank of Japan, has vowed to aggressively pursue the country's 2 percent inflation target, and hopes that goal is attainable within 2 years.

Equity Markets

After a volatile February, equity markets calmed in March, sidestepping the Cyrus bailout and other disappointing news, to post strong returns. Domestic indices all had strong months in March, as the S&P 500 gained 3.8% to bring year-to-date gains to 10.6%. US mid-cap and small-cap stocks performed even better, as the S&P Mid Cap 400 and the Russell 2000 gained 4.8% and 4.6%, respectively. European equities did not perform as well, with the FTSE 100 advancing 1.3%, and the Euro Stoxx 60 gaining 1.6%. Emerging Market stocks struggled, as the MSCI Emerging Market Index lost 1.9% in March, the second consecutive month of negative performance.



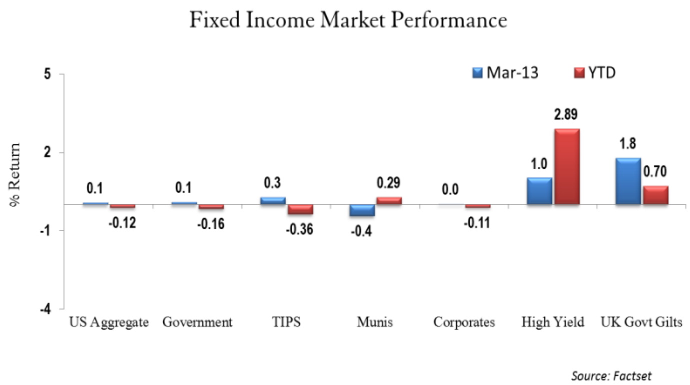
For the most part, stocks enjoyed a wire-to-wire advance in March, though there was some choppiness mid-month associated with the Cyprus bailout. The S&P 500 hit an all-time high in late March, erasing the nominal losses in the drawdown of 2008-2009. On a total return basis, (including reinvested dividends), the S&P 500 regained its all-time high last April. On an inflation-adjusted basis, the index is still well below its all-time high. On March 24, 2000 intraday high of 1,527 (as adjusted for inflation) is equal to 2,065 in today's dollars.



Bond Markets

The yield on junk bonds fell back to near record levels despite an increase in European instability fears caused by the Cyprus bailout and the inability for Italy to form a government. The Barclays High Yield Index was up a percent in March and is now up 2.9% for the year. Investment credit spread widened 3 bps to close at 130 bps over Treasuries.

US Treasury bonds returned 0.1% for the month, as the yield on the 10-year Treasury bond decreased 3 bps and 30-year Treasury bond decreased 1 bps to close at 1.86% and 3.1% respectively. The 30/2 yield curve widened 1 bps. The German 10-year benchmark bond yield declined 17 bps to close March near record lows at 1.28%. The yield on UK 10-year benchmark bonds fell 21 bps to close at 1.77%.



Commodities

The S&P GSCI Total Return Index, a gauge of 24 raw materials, gained 0.8% in March despite of concerns of a growth slowdown in China, the biggest consumer of many commodities. Chinese manufacturing expanded at the slowest pace in five months. The S&P GSCI gauge advanced 0.55% for the year. Stocks and commodities were highly correlated coming out of the financial crisis, but that correlation has broken down towards the end of 2012. The recent relative underperformance of the commodity market versus equities has raised questions about the state of the global recovery.

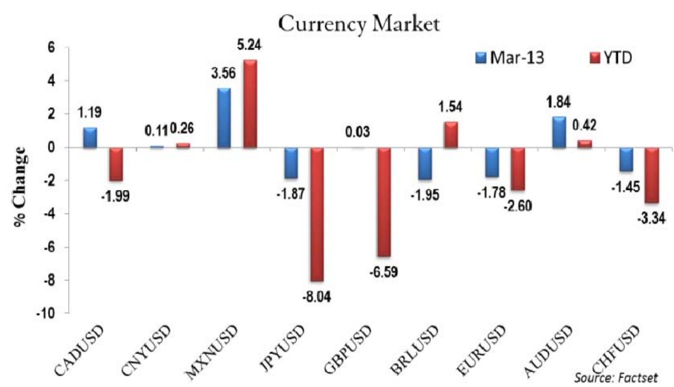
The energy sub-index was the leading performer, returning over 2% in March. Natural Gas was the strongest performing commodity for the second month in a row, rising 14.15% for the month and is up 16% for the year.

Precious metals gained 0.8% with gold rising 1% for the month. Despite the gain in March, gold prices have fallen for two straight quarters, the longest losing streak since 2001. Silver continued to struggle as imports by China declined for the fifth time in six months and inventories of Silver monitored by Comex reached the highest level since August 1997.

Industrial metals declined the most (-4.43%) last month as Zinc, Lead and Aluminum all fell for second month in a row. Production of these metals is expected to exceed demand during the rest of the year. Industrial metals are now down 7.1% for the year. Agricultural commodities declined 2.23% as cotton and sugar are expected to be in surplus for 2013. Wheat priced dropped on speculation that last year's price gain would prompt farmers to plant more.

Currency

The US Dollar Index, which tracks the currency against six major U.S. trading partners, rallied 1.3% in March. The index is now up 4.02% for the year. The Euro weakened 1.8% and traded below $1.28 for the first time since November. The Euro closed at 1.2841 USD/EUR. The Yen slid 1.9% against the dollar last month and is now down 8% for the year on Japanese government and central bank stimulus measures. The yen was unchanged against the Euro in March. The Australian dollar (AUD) appreciated 1.8% in March against the US dollar and is even with the greenback for the year. The British pound was even with the US dollar and closed the month at 1.5185 USD/GBP.



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