

## Highlights

Amid the stream of news flow, market volatility, and endless debates among government officials, the U.S. economy has proven to be fairly resilient. The S&P 500 had market movements of over 1% for 11 of 21 trading days in November.<sup>1</sup> Economic indicators continue to support the slow growth story with a mixture of both encouraging and marginally disappointing releases. The shopping season was kicked off in good fashion with an estimated \$50 billion in purchases, up ~9% from last year,<sup>2</sup> and the consumer confidence index is up 13.7% from last month. Initial jobless claims are down 1.3%. The unemployment rate of 8.6% is at its lowest since March 2009, but is primarily due to discouraged would-be workers dropping out of the labor force.<sup>1</sup> The super committee failed to meet the November deadline of laying plans to reduce the deficit by \$1.2 trillion in an apparent crowd pleaser; opinion polls suggest Americans do not want an increase in taxes or a reduction in government benefits.<sup>2</sup> Europe continues to struggle as borrowing costs reached all time highs and bank balance sheets fell in tandem with government bond prices. Domestically, MF Global, a derivatives brokerage firm collapsed after putting an \$11.5 billion bet on European Sovereign Debt, leading to an investigation of their practices.<sup>3</sup> ❖

Sources: 1. Bloomberg 2. Reuters 3. Business Week

Asset Class	Index	11/30/11	Total Return 1 Month	Total Return YTD	Total Return 1 Year	Total Return 3 Year	Total Return 5 Year
Domestic Equities	Dow Jones Industrial Average	12,046	1.18%	6.70%	12.38%	14.14%	2.47%
	S&P 500	1,247	-0.22%	1.08%	7.83%	14.13%	-0.17%
	S&P 400 Mid-Cap	884	-0.30%	-1.36%	5.10%	21.63%	3.29%
	Russell 2000	737	-0.36%	-4.80%	2.76%	17.57%	0.09%
International Equities	EAFE Index	-	-4.85%	-11.30%	-4.12%	10.11%	-3.95%
Fixed Income	Barclays Capital Intermediate Gov/Cr	-	-0.24%	4.98%	3.67%	6.39%	5.63%
	Barclays Mgd 1-10 Yr Muni	-	0.97%	6.53%	5.18%	6.25%	5.33%

Source: Bloomberg

## Market Update

### Equities

The equity market kept investors guessing with a 10% change in the S&P 500 between the lowest and highest close in the month.<sup>1</sup> The final trading day rallied +4.4% as a global effort came together to reduce European borrowing costs for U.S. dollars.<sup>2</sup> Small and mid-cap stocks, as measured by the Russell 2500, participated in the rally with +8.0% in the last three trading days but have more losses to offset and are still negative YTD.<sup>3</sup> Within the S&P 500, consumer staples (+2.4%) and energy (+1.7%) had the largest positive contribution and technology (-1.9%) and financials (-5.0%) were hit the hardest. International developed markets, measured by the EAFE index, lagged U.S. indices considerably.<sup>1</sup> ❖

### Fixed Income

The super committee's inaction led Fitch to post a negative outlook to the U.S. AAA rating. Standard and Poor's downgraded 15 of 37 major financial institutions across the U.S. and Europe in a planned overhaul of their rating system to reflect the government's inability to provide relief in the event of default.<sup>4</sup> The market was not surprised by either action and didn't offer much response. Referencing the Barclay's Capital Intermediate Gov/Credit index, corporate bonds outperformed government bonds, and shorter maturities outperformed longer maturities. 10-year treasury prices declined and ended with a 2.07% yield. Municipal bonds, represented by the Barclay's Capital Managed 1-10 Year index are the bright spot in regard to November performance +1%<sup>1</sup> and relative value. Yielding more than treasuries with a direct comparison, and corporate bonds on a tax-adjusted basis, funds continue to flow to this sector of the market. ❖

Sources: 1. Bloomberg 2. Wall Street Journal 3. Bank of America Merrill Lynch 4. Reuters

## Bottom Line

As the European debt crisis continues, funds are being sought from outside the continent; there is a \$200 billion proposal to channel funds through the International Monetary Fund<sup>1</sup>, but many economists question the viability of the Euro. Additionally, the U.S. has yet to determine how to reduce the deficit, and automatic reductions to defense and spending will be triggered in 2013 if all else fails. There are, however, opportunities as stock prices are inexpensive relative to historic values. Companies buying back shares appear to be the largest group of investors during the month;<sup>2</sup> a sign they also view the shares as undervalued or an attractive investment. We are maintaining a neutral to slightly overweight position in equities based on relative valuation versus bonds and feel the long-term investor is positioned to be rewarded for taking the additional risk. ❖

Sources: 1. Bloomberg 2. CNBC