First Quarter 2012 Market Review

Economic training wheels in 4Q 2011 continue to support economies throughout the globe. Here in the U.S., Operation Twist (with us until June 2012) and the ECB's Long-Term Refinancing Operations (LTRO), continue. In addition, the Bank of Japan expanded its asset purchase program and the Bank of England added an additional $520 billion to its existing quantitative easing program. The results of these programs are mixed, but to many market followers, the saying "things could be a lot worse" is getting old. True, we did see signs of economic improvement at the beginning of the quarter but that soon faded. Personal income was notably weak. The manufacturing sector was also weak, though we saw an uptick for the quarter, we also saw factory orders drop 1.5% in March. So again, we see the markets direction is centered on the expectation that the FED would continue with a new phase of easing.

In the credit markets, the investment grade sector was the star performer posting an impressive 19+% annualized return. Within that sector, it was the financials that led the way. The fact that financials represent 41% of this sector and have the most volatility accounts for its leadership. For the quarter, Treasuries traded in a narrow range like it did in the third and fourth quarters of 2011. The slight uptick at quarter end, a result of U.S. economic improvement, was offset by troubles in Europe.

Since markets have no clear direction, so does the investor. As a result, caution remains the word du jour. For insurance companies, we still believe that in addition to low leveraged investment grade corporates, there is value in adding quality equities that pay dividends to the portfolio.