



Second Quarter 2012 Market Review

Thomas Friedman had great insight in his book "The World is Flat." His premise is based on the immediate ability to access information anywhere in the world and how it affects our daily lives. This premise is easily proven when one observes what's impacting our U.S. markets. We began the quarter with Greek fiscal "acumen" and Spanish government bond yields followed by Chinese manufacturing and German unemployment. So it is easy to explain the volatility but very difficult to determine any clear direction. Couple that with political uncertainty here and abroad and you have the current description of where we may be heading, "a fiscal cliff."

It appears we are in a synchronized economic slowdown across the globe. In the U.S., retail sales are down and non-farm payroll growth & private non-farm payrolls declined significantly. Real disposable income is the same as it was in 2007. In Europe, manufacturing activity has been contracting since August 2011 and unemployment stands at a record 11.1%. The Purchasing Managers index (45.1) in China suggests a slowdown there.

Where do we go from here.....?

Economy

With the FED reconfirming their mandate to keep interest rates low through 2014 and hinting at another stimulus, we are most likely faced with a low interest rate environment. Politically, both here and abroad, we are at a standstill with no end in sight for sound policies to grow our economy.

Markets

Treasury prices during the quarter saw yields trend lower as economic data weakened and European concerns continued. The five-year treasury yield moved from 1.04% on 3/31 to 0.72% on 6/30. The ten year went from 2.21% to 1.65% during the same time period.

Tremendous demand continued for Investment Grade corporates. As a result, "quality yield" is rare these days.

Outlook

With no clear market direction, we remain cautious and for our insurance companies continue to fill our dividend paying equity sector and investment grade corporates when the opportunity presents itself.