

The Economy

The Blue Chip Economic Indicators survey in December revealed a 2012 Gross Domestic Product forecast of 2.2%, up from its 2.0% target growth rate in October. Brian Wesbury, Chief Economist at First Trust Advisors, has a more bullish target of 3.0% for 2012. U.S. corporations are still holding record amounts of cash. Non-financial companies in the S&P 500 held more than \$1.15 trillion in cash and equivalents in Q3'11, more than double the \$527 billion held in 2003, according to S&P Capital IQ. All U.S. non-financial companies combined held \$2.12 trillion in Q3'11, according to data from the Federal Reserve. With 2012 being an election year, we expect the rhetoric from policy makers, both here and abroad, to influence the markets beyond the norm.

Consumer Confidence 64.5 (Dec) 56.0 (Nov) 	Crude Oil (Mo.-End) \$98.83 (Dec) \$100.36 (Nov) 	Personal Spending 0.1% (Nov) Oct was 0.1% 	ISM Manufacturing 53.9 (Dec) 52.7 (Nov) 	ISM Non-Manufacturing 52.6 (Dec) 52.0 (Nov) 
Gold (Mo.-End) \$1566.80 (Dec) \$1745.50 (Nov) 	Natural Gas (Mo.-End) \$2.99 (Dec) \$3.55 (Nov) 	Factory Orders 1.8% (Nov) Oct was -0.4% 	New Home Sales 315,000 (Nov) 307,000 (Oct) 	Existing Home Sales 4.42M (Nov) 4.97M (Oct) 

The Stock Market

Indices (Source: Bloomberg)	Dec	2011	Seventy-four out of the 132 subsectors (56%) that comprise the S&P 500 posted a gain in December, up from 50 (38%) last month, according to S&P Telecom. Services was the top performing sector, up 4.0%. In December, the dividend-payers (394) in the S&P 500 (equal weight) posted a total return of 0.54%, vs. -2.31% for the non-payers (106), according to Standard & Poor's. In 2011, the payers were up 1.40%, vs. a decline of 7.60% for the non-payers. The number of dividend increases in 2011 totaled 320, up from 243 increases in 2010. Twenty-two companies initiated dividends, up from 13 a year ago. Five dividends were cut, up from four cuts a year ago. Dividend-payers have outperformed the non-payers in 10 of the last 12 calendar years. Approximately 7,000 publicly owned companies report dividend information to Standard & Poor's Dividend Record. In 2011, dividend increases totaled \$50.2 billion, an 89.4% rise from the \$26.5 billion increase in 2010. For the year, S&P Indices reported 1,953 dividend increases, up 13.0% over last year's 1,729. The number of dividends decreased totaled just 101, down from 145 in 2010. The Q4'11 edition of the <i>Investment Manager Outlook</i> (released 12/14), a survey of investment managers conducted by Russell Investment Group, found that managers are most bullish on L-C Value, L-C Growth and Emerging Markets. Their favorite sectors are Technology and Energy.
S&P 500	1.0%	2.1%	
DJIA	1.6%	8.3%	
NASDAQ 100	-0.7%	3.7%	
S&P 400	-0.4%	-1.7%	
Russell 2000	0.7%	-4.2%	
Russell 3000	0.8%	1.0%	
MSCI World (ex U.S.) (USD)	-1.1%	-12.2%	
MSCI Emerging Markets (USD)	-1.2%	-18.4%	
Growth/Value (Source: Bloomberg)	Dec	2011	
S&P 500 Growth	0.4%	4.7%	
S&P 500 Value	1.8%	-0.5%	
S&P 400 Growth	-1.6%	-1.0%	
S&P 400 Value	1.0%	-2.4%	
Russell 2000 Growth	-0.2%	-2.9%	
Russell 2000 Value	1.6%	-5.5%	

U.S. Dollar Index (DXY) 2.3% (Dec) 1.5% (2011)  \$ was down 1.1% in '10	CBOE Total Equity Options (# of contracts in millions) Dec: 29.2 (-12.8%)  Nov: 33.5 (-13.4%) Record 7/08: 67.2 million	Short Interest (NYSE) Dec 15: 13.5B (-4.3%)  Nov 15: 14.1B (-4.1%) Record 7/08: 18.61 billion shares	VIX Volatility Index (S&P 500) 23.40 (12/30)  27.80 (11/30) Record 11/20/08: 80.86
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The Bond Market

Index (Source: Barclays)	Dec	2011	Yield	Another good year for fixed-income returns thanks to the favorable rate climate. Second half concerns over a slowdown in global growth helped push rates even lower, despite inflation rising to 3.4%. The yield on the 10-Year T-Note declined 142 basis points to 1.88% during the year. Heading into 2012, the highest yields in the chart to the left belong to high yield corporate and emerging markets debt. While both of these speculative-grade niches lagged the performance of Treasuries and GNMA's in 2011, both outperformed over the past 3, 5 and 7-year periods, according to data from Barclays Capital. Even if rates were to finish 2012 unchanged, Treasuries and GNMA's would have a difficult time generating a return above inflation. If the Bush tax cuts are not extended beyond 2012, municipal bonds could become far more popular with investors.
U.S. Treasury: Intermediate	0.57%	6.57%	0.72%	
GNMA 30 Year	0.64%	7.97%	2.77%	
Municipal Bond (22+)	2.39%	14.88%	4.47%	
U.S. Aggregate	1.10%	7.84%	2.24%	
Intermediate Corporate	1.39%	5.52%	3.24%	
U.S. Corporate High Yield	2.66%	4.98%	8.36%	
Global Aggregate	0.67%	5.64%	2.33%	
Global Emerging Markets	0.97%	5.77%	6.13%	

Key Rates as of December 30 Fed Funds 0-0.25% 2-Yr. T-Note 0.24% 10-Yr. T-Bond 1.88% 30-Yr. Mortgage 3.94% Bond Buyer 40 4.84% (Source: Bloomberg)	Key Yield Spread The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 679 basis points on 12/30/11, up from 704 on 11/30/11. It was 447 on 12/31/10. (Source: Bloomberg)	2011 Debt Issuance Through November (Source: Thomson Reuters) <table border="1"> <thead> <tr> <th>Debt Category</th> <th>\$ Amount</th> <th>% change over '10</th> </tr> </thead> <tbody> <tr> <td>Treasury</td> <td>\$2.0 Trillion</td> <td>-5.2%</td> </tr> <tr> <td>Corporate</td> <td>\$971.0 Billion</td> <td>-3.2%</td> </tr> <tr> <td>Convertible</td> <td>\$20.5 Billion</td> <td>-23.8%</td> </tr> <tr> <td>Asset-Backed</td> <td>\$120.9 Billion</td> <td>+17.1%</td> </tr> <tr> <td>Municipal</td> <td>\$266.9 Billion</td> <td>-22.7%</td> </tr> </tbody> </table>	Debt Category	\$ Amount	% change over '10	Treasury	\$2.0 Trillion	-5.2%	Corporate	\$971.0 Billion	-3.2%	Convertible	\$20.5 Billion	-23.8%	Asset-Backed	\$120.9 Billion	+17.1%	Municipal	\$266.9 Billion	-22.7%
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Equity funds reported net cash outflows totaling \$18.9 billion in 11/11, vs. \$20.4 billion of outflows in 10/11, according to the Investment Company Institute. Bond fund inflows totaled \$18.6 billion, vs. \$11.4 billion of inflows in 10/11. Money Market fund inflows totaled \$43.2 billion, vs. \$21.9 billion of outflows in 10/11. Y-T-D through November, equity funds reported net outflows totaling \$101.9 billion, vs. \$114.8 billion of inflows for bond funds (municipals had outflows totaling \$16.5B) and \$162.3 billion of outflows for MMFs.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	1565.15	10/09/07	676.53	03/09/09	1257.60	-19.65%	2.11%	2.12%
S&P 500 Growth	730.83	10/12/07	363.99	03/09/09	677.63	-7.28%	4.69%	1.86%
S&P 500 Value	836.19	07/13/07	307.16	03/09/09	573.26	-31.44%	-0.48%	2.43%
S&P 400	1015.26	04/29/11	372.88	10/09/02	879.16	-13.41%	-1.73%	1.50%
S&P 400 Growth	465.69	07/07/11	162.27	10/09/02	399.49	-14.22%	-0.95%	1.00%
S&P 400 Value	361.18	06/04/07	135.55	10/09/02	304.09	-15.81%	-2.39%	2.03%
S&P 100	729.79	10/09/07	322.13	03/09/09	570.79	-21.79%	3.19%	2.26%
DJIA	14164.53	10/09/07	6547.05	03/09/09	12217.56	-13.75%	8.38%	2.60%
NASDAQ 100	2429.50	07/22/11	804.64	10/07/02	2277.83	-6.24%	3.68%	1.02%
Russell 2000	865.29	04/29/11	327.04	10/09/02	740.92	-14.37%	-4.17%	1.53%
Russell 2000 Growth	497.75	04/29/11	169.69	10/09/02	425.03	-14.61%	-2.91%	0.74%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	979.25	-23.29%	-5.50%	2.33%
Russell 3000	907.58	10/09/07	389.61	03/09/09	742.58	-18.18%	1.03%	2.02%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	3660.34	-31.96%	-12.21%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	79.55	10/10/02	356.50	-24.69%	-18.42%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2160.80	10/16/02	30267.24	-32.19%	-27.27%	4.24%
RTS/Russia (USD)	2487.92	05/19/08	267.70	01/03/02	1381.87	-44.46%	-20.54%	2.49%
Bombay SE 500/India (USD)	226.04	01/07/08	20.78	01/01/02	108.90	-51.82%	-38.03%	1.64%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	349.40	-56.88%	-16.26%	2.21%
KOSPI/South Korea (USD)	2.29	10/31/07	0.41	03/17/03	1.59	-30.85%	-12.28%	1.57%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	2373.33	-41.86%	-17.30%	3.71%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	929.67	-53.25%	-15.78%	4.71%
S&P Consumer Discretionary	328.81	07/07/11	125.72	03/09/09	308.58	-6.15%	6.22%	1.65%
S&P Consumer Staples	337.43	12/29/11	182.72	03/10/03	335.54	-0.56%	13.99%	2.90%
S&P Energy	668.81	05/20/08	163.83	07/23/02	520.81	-22.13%	4.71%	1.89%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	182.98	-18.28%	19.96%	4.01%
S&P Financials	509.55	02/20/07	81.74	03/06/09	175.23	-65.61%	-17.02%	1.86%
S&P Banks	414.38	02/20/07	49.02	03/05/09	130.52	-68.50%	-10.63%	1.92%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	444.96	-34.23%	8.31%	3.71%
S&P Health Care	426.93	05/07/07	252.84	03/05/09	401.90	-5.86%	12.73%	2.21%
S&P Pharmaceuticals	429.68	03/15/02	214.50	03/03/09	337.59	-21.43%	17.76%	3.39%
NYSE Arca Biotechnology	1502.18	05/12/11	280.09	07/10/02	1091.42	-27.34%	-15.84%	0.05%
S&P Information Technology	441.36	10/31/07	172.88	10/09/02	409.93	-7.12%	2.43%	1.08%
Philadelphia Semiconductor	637.94	03/08/02	171.32	11/20/08	364.44	-42.87%	-10.36%	1.45%
S&P Telecom Services	181.06	05/31/07	79.00	09/30/02	129.82	-28.30%	6.31%	5.27%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	292.32	-23.31%	-0.59%	2.39%
S&P Materials	285.91	05/16/08	102.55	10/09/02	211.71	-25.95%	-9.65%	2.31%
Philadelphia Gold & Silver	228.95	04/08/11	54.43	12/31/01	180.64	-21.10%	-19.16%	1.58%
Reuters/Jefferies CRB	473.52	07/02/08	186.93	01/30/02	305.30	-35.53%	-8.26%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	159.41	-19.43%	3.75%	7.38%
Merrill Lynch High Yield Master II	277.73	07/26/11	106.67	10/10/02	272.53	-1.87%	4.37%	8.67%