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Investment Commentary
Summary and Highlights
May 2012

- Measured in real, or inflation-adjusted, terms, U.S. Gross Domestic Product (GDP) increased at an annual rate of 2.2% in the first quarter of 2012, according to the "advance" estimate released by the Bureau of Economic Analysis, which is below the fourth quarter annual growth rate of 3.0%. The increase in U.S. GDP growth during the first quarter principally reflected positive contributions from exports, residential fixed investment and personal consumption expenditures that were partly offset by negative contributions from federal, state and local government spending and nonresidential fixed investment.

- The Consumer Price Index (CPI) rose 0.3% in March, compared to the 0.4% increase reported in the previous month. From March 2011 to March 2012, the CPI increased at an annualized rate of 2.7%, and the Core CPI, excluding food and energy, increased 2.3%. After pulling back in the final quarter of 2011, energy prices have moved higher in each of the first three months of 2012. Gasoline prices rose during March, but at a much less pronounced rate than the 6.0% increase posted in the month of February. After taking a pause in the previous month, food prices resumed their slow but steady climb higher during March.

- According to the Bureau of Labor Statistics (BLS), U.S. employment in the month of April rose by 115,000, well below the 168,000 job gain that many were expecting and the 229,000 additions averaged over the last three months. April's reading represents the smallest increase in six months. The U.S. unemployment rate at 8.1% was -0.1% lower than the rate reported in March, hitting a new three year low. The unemployment rate has declined in seven out of the last eight months, but was again influenced more by people leaving the labor force than by a significant uptick in hiring. Separately, February and March job additions were revised upward by a combined 53,000 jobs.

- The S&P 500 Index has doubled since the market low in March 2009, and is only 10.2% below its all time high set in October 2007. The U.S. economy continues to perform well and the stock market reflects this. The economic slowdown in Europe has not yet affected the U.S. economy in a significant way. We remain optimistic that the U.S. economy can withstand a minor slowdown in Europe and the emerging market countries, but we will remain vigilant in monitoring the world's economies to detect any impact on the U.S. economy.

- The U.S. economy continues to report reasonable growth, especially when compared to other developed markets. Businesses continue to invest in capital equipment to improve operating efficiencies and replenish inventories. Consumer's balance sheets continue to improve, giving them the ability to spend. Consumer credit is also beginning to grow as banks are beginning to show an increased willingness to lend. Residential construction is set to contribute modestly to economic growth in 2012, after a painful five year absence. The last piece that is needed for a strong economy is a full recovery in employment.

- he Federal Reserve Open Market Committee (FOMC) last met on April 25th, at which time the Federal Funds Rate was left unchanged in the target range of zero to one-quarter of one percent. The Federal Funds Rate essentially has been zero since December 16, 2008, and the Committee has maintained its pledge to leave it at this "exceptionally low level" through late-2014.

- We remain constructive on the U.S. equity market. Valuations are reasonable, economic growth is good and the government continues to do all it can to stimulate the economy. Relative to fixed income investments, we continue to believe that equities present an attractive alternative as investors are paid dividends with yields that approximate fixed income yields, plus the potential to participate in economic growth via appreciating stock prices based upon growing earnings going forward over the long-term.