

Despite an end of June slump, the U.S. equity market posted a solid return to the 2<sup>nd</sup> quarter. Emerging markets posted the largest decline as political concerns in Brazil, Turkey and Egypt along with slower growth in China caused investors to move to other investments. Commodities also declined in the face of the slower emerging market growth and the potential for rising interest rates. Dividend strategies, such as MLPs and high yielding equities, performed well but lagged most other U.S. equity benchmarks.

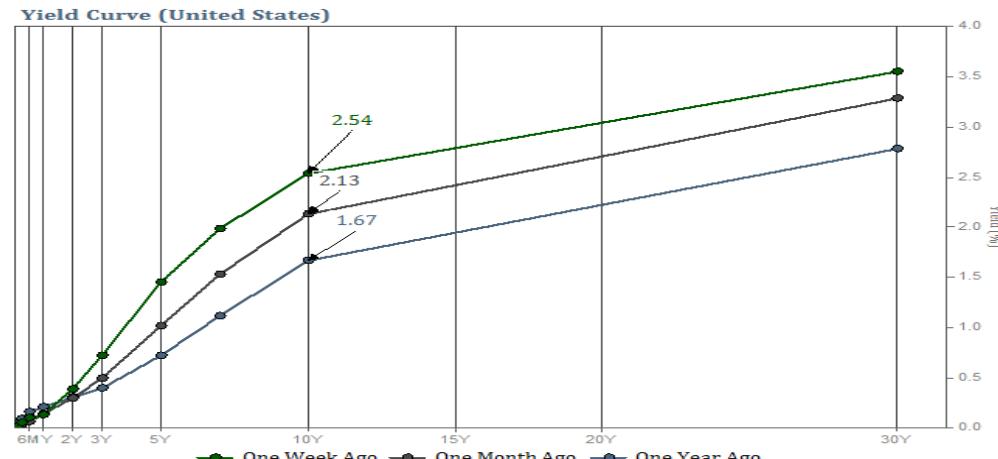
| Index Name            | June  | 2nd Qtr | YTD   | One Yr | Three Yr |
|-----------------------|-------|---------|-------|--------|----------|
| S&P Small Cap 600     | -0.15 | 3.92    | 16.19 | 25.18  | 20.27    |
| Russell 1000 Value    | -0.88 | 3.20    | 15.90 | 25.32  | 18.51    |
| S&P 500               | -1.34 | 2.91    | 13.82 | 20.60  | 18.45    |
| Russell 1000 Growth   | -1.88 | 2.06    | 11.80 | 17.07  | 18.68    |
| Alerian MLP           | 3.12  | 1.94    | 22.07 | 28.38  | 20.98    |
| DJ Select Dividend    | -0.05 | 1.86    | 13.85 | 17.78  | 19.32    |
| S&P Mid Cap 400       | -1.85 | 1.00    | 14.59 | 25.18  | 19.45    |
| MSCI EAFE             | -3.53 | -0.73   | 4.47  | 18.62  | 10.04    |
| MSCI EM Small Cap     | -8.73 | -7.39   | -3.46 | 9.86   | 3.72     |
| MSCI Emerging Markets | -6.32 | -7.95   | -9.40 | 2.87   | 3.38     |

Economic news continued to point to modest growth of approximately 2% for the year. Unemployment, consumer confidence, inflation, and housing data points all signaled continued improvement in the U.S. economy. The modest growth and already high margin levels due to years of cost cutting, are making it difficult for companies to eke out earnings growth. Over the second quarter corporate earnings were revised down to 7% annual earnings growth this year on the S&P500 companies. That would provide earnings of \$111 for the year. With the S&P ending the quarter at 1615 the market is trading at a price to earnings ratio of 14.5 times 2013 earnings, higher than both the year end level and long term averages. Reporting season for second quarter earnings will signal whether corporate America can meet still high 3<sup>rd</sup> and 4<sup>th</sup> quarter earnings growth expectations.

| S&P500         | 2012  | 2013  | 2014  | 1Qa | 5%  |
|----------------|-------|-------|-------|-----|-----|
| Revenue Growth | 4%    | 4%    | 4%    | 2Qe | 4%  |
| EPS Growth     | 6%    | 7%    | 11%   | 3Qe | 8%  |
| EPS Level      | 103.2 | 110.8 | 123.3 | 4Qe | 13% |

## Second Quarter 2013 Market Update

The Chinese government has begun tightening credit which is a positive development for quality growth but clearly aims to limit growth. The secular growth story for China is not over, just moderating. Overall emerging market growth is still expected to be about 5.7%, far outpacing developed markets. And valuations have become more attractive with recent price declines.



While the bond market has been anticipating a rising rate environment, the reality of the Fed signaling on June 19<sup>th</sup> that it would become more "data driven" in its timing of the end of quantitative easing, still spooked the bond market. The 10 year treasury rose almost 50 basis points over 3 days and then settled back to 2.5%, still a 40 bps rise from the end of June. The declines in bonds were orderly however. The short end of U.S. government issues fell only slightly while long term U.S. bonds and long term corporates fell sharply.

| Index Name                      | June  | 2nd Qtr | YTD    |
|---------------------------------|-------|---------|--------|
| US Government - Long            | -6.91 | -8.74   | -11.05 |
| US Corporate - Long             | -5.15 | -7.34   | -10.54 |
| US Corporate (3-10 Y)           | -3.11 | -4.71   | -5.71  |
| Emerging Market Local Curr Govt | -2.73 | -3.95   | -3.66  |
| US High Yield - Corporate       | -3.30 | -3.53   | -2.92  |
| Global Aggregate x USD          | -1.48 | -2.06   | -1.77  |
| US Government (3-5 Y)           | -1.22 | -1.97   | -3.04  |
| US Corporate (1-3 Y)            | -0.55 | -0.77   | -0.85  |
| US High Yield Loans             | -0.75 | -0.52   | 0.98   |
| US Government (1-3 Y)           | -0.34 | -0.34   | -0.30  |