January 2013

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BANK AT HOME PremierBank

'Fiscal Cliff' averted… sort of

Recent Economic Indicators

Indicator	Value
Thomson Reuters/Univ. of Michigan Consumer Sentiment	72.9
Consumer Confidence	65.1
Existing Home Sales, Monthly Change	5.9%
New Home Sales, SAAR*	377,000
Personal Income, Monthly Change	0.6%
Personal Consumption Expenditures, Mo Chg	0.4%
Non-farm Payroll Increase/Decrease	155,000
Unemployment Rate	7.8%
ISM Non-Manufacturing Index	56.1
ISM Manufacturing Index (PMI)	50.7
New Durable Good Orders, Monthly Change	0.7%
Industrial Production, Monthly Change	1.1%
Capacity Utilization	78.4
Retail Sales, Monthly Change	0.3%
CPI, Monthly Change, NSA	-0.5%
CPI Core, Monthly Change, NSA	0.0%
PPI, Monthly Change, NSA	0.8%
PPI Core, Monthly Change, NSA	0.1%
U.S. Trade Deficit	42.2 Bil
Q2 2012 Non-farm Productivity, Qtrly Chg	2.9%
Q2 2012 Real GDP, Quarterly Change, SAAR*	3.1%

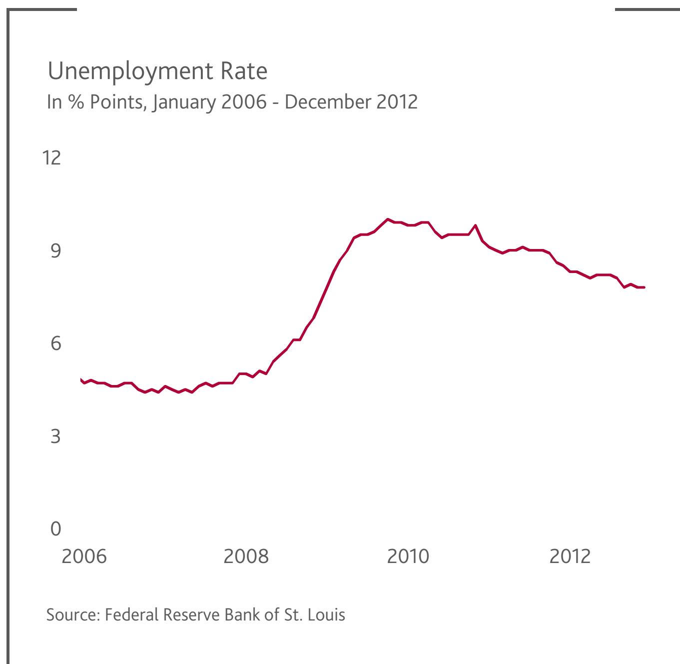
*Seasonally Adjusted Annual Rate
Values reflect most recent data available at the time of publication.
Source: Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, Federal Reserve, Thompson-Reuters University of Michigan, Institute for Supply Management, National Association of Realtors, The Conference Board, U.S. Census Bureau, Bloomberg.

Overview

After a great amount of political posturing and tense negotiations, Congress finally agreed to a deal on New Year's Day to address at least the tax side of the fiscal cliff. Most of the Bush-era tax cuts will remain in place, but for those earning over $400k ($450k if married, filing jointly) both income tax rates and capital gains tax rates will be going up. The 2% reduction in Social Security payroll taxes was allowed to expire, so the majority of Americas will still be seeing smaller paychecks in the New Year. On the spending side there was a one-year extension of federal unemployment benefits and a one-year delay in Medicare reimbursement cuts, but the big decisions on sequester cuts were pushed off two months. That means the negotiations will coincide with a need to raise the debt ceiling again and the expiration of the current continuing budget resolution on March 27, so we can expect more political theater and resulting market volatility over the next few months.

Third quarter GDP received another upgrade in its third and final estimate. Real GDP growth was revised up to 3.1%, compared to 2.7% in the second estimate and 2.0% in the initial estimate. The upward revision was primarily due to higher estimates for personal consumption, nonresidential fixed investment, exports and government purchases.

Ben Bernanke dropped more hints in December as to when monetary easing measures might end following a two-day meeting of the FOMC. The Fed now says it will keep its accommodative policies in place for as long as unemployment remains above 6.5% and their one-to-two year inflation expectations remain below 2.5%. We believe this is an improvement over the previous guidance of mid-2015, as this is based on economic data and not an arbitrary timeline. The Fed also said after Operation Twist concludes at the end of the year they will begin outright buying longer-term Treasury securities at an initial pace of $45 billion, bringing their total monthly purchases to $85 billion when combined with the $40 billion of mortgage-backed securities purchases. The expanded quantitative easing program will



continue to put downward pressure on longer-term rates, including mortgage rates which should help to keep the current housing recovery on track.

Employment

The number of Americans filing for first-time unemployment benefits rose 5,000 to 367,000 (revised) for the week ended December 29. The four-week average – now free from the inflated effects of Hurricane Sandy – fell to a recovery low of 356,750 in the third week of December and ended the month nearly 50,000 lower than the month-ago comparison. Continuing claims fell a substantial 127,000 in the last full week of the month to 3.109 million – also a recovery low. Year-end unemployment data is always suspect because of the noise created from holiday hiring, and the impact of Sandy does not help to make the picture any clearer, but at least the data is showing a positive trend for the labor market.

Nonfarm payrolls came in as expected with 155,000 jobs being added in the U.S., and the unemployment rate holding steady at 7.8%. The private sector added 168,000 jobs with strength being seen in manufacturing and construction, while government jobs fell another 13,000 following a drop of 10,000 in November. An upward revision of 15,000 to last month's number was a positive in the report. The bottom line is despite the uncertainty surrounding the 'fiscal cliff' job growth has been good and steady over the latter half of the year.

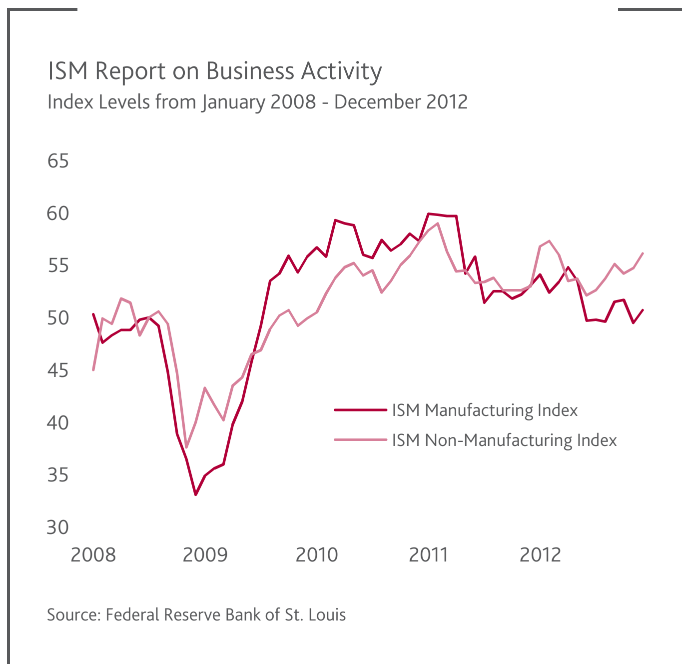
Consumer Confidence & Spending

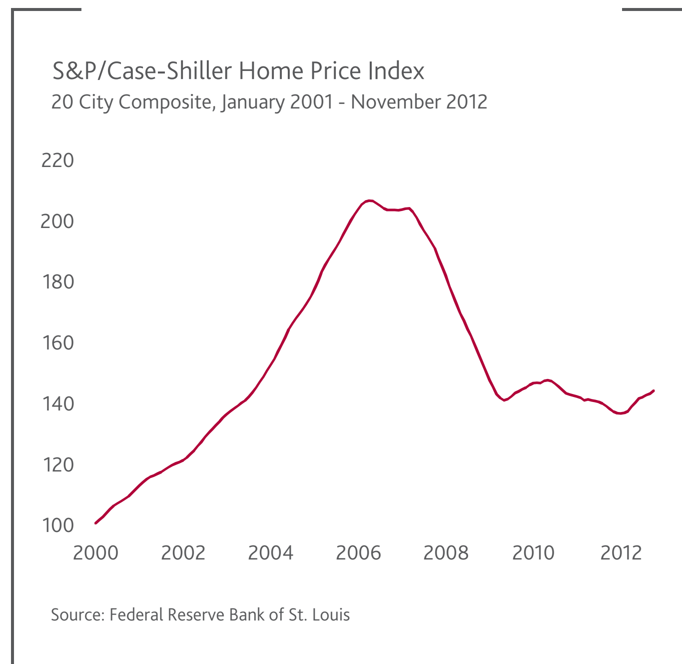
Despite the positive impact the improving housing market has had on consumer sentiment in recent months, the lack of a resolution to the 'fiscal cliff' in Washington was clearly starting to rattle Americans in December. Consumer confidence fell 6.4 points during the month to 65.1 with the expectations component plunging nearly 15 points as consumers worry about future economic damage from the 'fiscal cliff'. The present situation component was actually up 5.5 points reaching a recovery high of 62.8, so it is clear that what lies further ahead has consumers worried.

Retail sales rebounded 0.3% in November after falling 0.3% the previous month, despite a 4.0% drop in gasoline sales. Weaker sales at the pump were offset by a 1.4% bounce back in motor vehicle sales, a 3.0% increase in nonstore retailers, and a 2.5% increase in electronics & appliances. The core number excluding both the automotive and gasoline components was up a favorable 0.7%. It appears consumers were paying little mind to the 'fiscal cliff' at least at the beginning of the holiday shopping season.

Inflation

Inflation does not look to be threatening the Fed's plans any time soon. The Consumer Price Index (CPI) dropped 0.3% in November thanks to lower energy prices. Year-over-year headline inflation fell 0.4% from October to 1.8%. Excluding food, up 0.2% for the month, and energy, which sank 4.1%, the core rate edged up a moderate 0.1%. Inflation continued to weaken at the producer level as well with the PPI falling 0.8% in November, also largely as a result of lower energy prices. In today's zero-interest-rate environment inflation has become an increasingly more important leading indicator for the direction of equity markets, and lower inflation has typically signaled higher stock prices ahead.





Business Activity

New factory orders were up 0.7% in November after climbing 1.1% the previous month. Stripping out the often volatile transportation component, the durable goods orders data is beginning to show some broad-based upward momentum with orders increasing 1.6% following a 1.9% boost in October. It is a modest improvement, but a good sign for manufacturing.

There was only marginal growth seen in manufacturing for the month of December in the face of uncertainty regarding government regulations and taxes. The ISM's manufacturing index rose to 50.7 for the month after dipping to a sub-50 reading of 49.5 in November. There was more strength seen in the non-manufacturing index which rose 1.4 points to 56.1. Overall, we believe the service side of the economy is showing a lot of positive momentum which is a good sign for the bulk of the U.S. economy.

Housing

Low mortgage rates and an improving economy continue to benefit home prices. The S&P/Case-Shiller 20-city index gained 0.7% in October following a 0.4% increase the previous month. The year-over-year increase improved from 3.0% in September to 4.3% in October. This was the ninth straight month of price increases which should be reassuring to home owners that are finally regaining some of the housing wealth they have lost. Existing home sales surged 5.9% in November to an annual pace of 5.04 million, 14.5% higher than the 4.40 million pace seen one year ago. The percentage of sales attributed to distressed properties including foreclosures and short sales fell to 22% helping to boost the median home price 2.1% to $180,600. Inventory fell to a 4.8-month supply – the lowest level in over seven years – indicating a scarcity of housing stock. Data released on the new home market was also positive with sales increasing 4.4%. New home sales have been steadily increasing this year and now stand at an annual rate of 377,000. Supply continues to be scarce here as well with the new housing stock falling to a 4.7 month supply from 4.9 months in October.

These conditions have helped boost home builder sentiment for eight straight months and the NAHB index now stands at 47. Barring any fundamental changes in demand stemming from the 'fiscal cliff' these reports point to the need for increased new home construction in 2013, which would certainly be a positive for economic growth. Housing starts did slow 3.0% in November following strong gains the previous two months, but permits were up 3.8% indicating builder optimism. The bottom line is we feel the housing market recovery is still on track and is increasingly becoming an economic growth leader.

World Economy

HSBC said growth accelerated in China as their PMI rose to a 19-month high of 51.5 in December. Manufacturing in China had been contracting for a full year until the last two months. However, it would appear economic growth looks poised to improve in the world's second largest economy, which we believe could lead to higher inflation in 2013 as the demand for raw materials increases. While inflation is still relatively tame in China, it did rise to a 2.0% annual pace in November from 1.7% the previous month.

Revised figures out from Japan showed their economy shrank 0.1% in the second quarter instead of the small expansion previously reported. This coupled with the sharp 3.5% contraction in the third quarter puts Japan in a technical recession. The third largest economy in the world is suffering from a trade spat with China stemming from a territorial dispute over a few small rocks in the East China Sea. Many economists expect the debt ridden country's economy to show further contraction when data is reported for the fourth quarter.

Meanwhile things were looking up for another debt-laden country. Greece actually saw its credit rating upgraded six notches to B- by Standard & Poor's, citing broad commitment by the rest of the eurozone to keep the troubled nation in its monetary union.

Long Treasuries, Munis and TIPS underperform for the month

Fixed Income Current Yields		12/31/2012
3 Month U.S. T-bill		0.05%
2 Year U.S. Treasury		0.25%
5 Year U.S. Treasury		0.72%
10 Year U.S. Treasury		1.78%
30 Year U.S. Treasury		2.95%

Total Returns	1 Month	YTD
Barclays U.S. Aggregate	-0.14%	4.21%
Barclays U.S. Govt./Credit	-0.10%	3.79%
Barclays U.S. Municipal Bond	-1.24%	6.78%
Barclays U.S. Corp. High Yield	1.53%	15.19%
Barclays U.S. Long Credit A	-0.42%	12.73%
Barclays U.S. Treasury 20+ Year	-2.15%	3.36%
Barclays Global Aggregate	-0.33%	4.32%
Barclays Emerging Markets	1.00%	17.95%

1 Month and YTD data as of: 12/31/2012

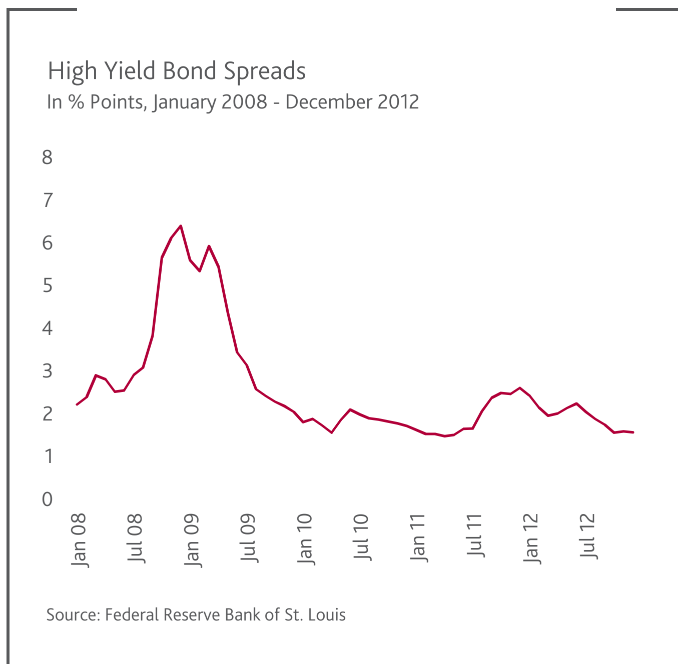
Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc., U.S. Department of the Treasury, Barclays Capital

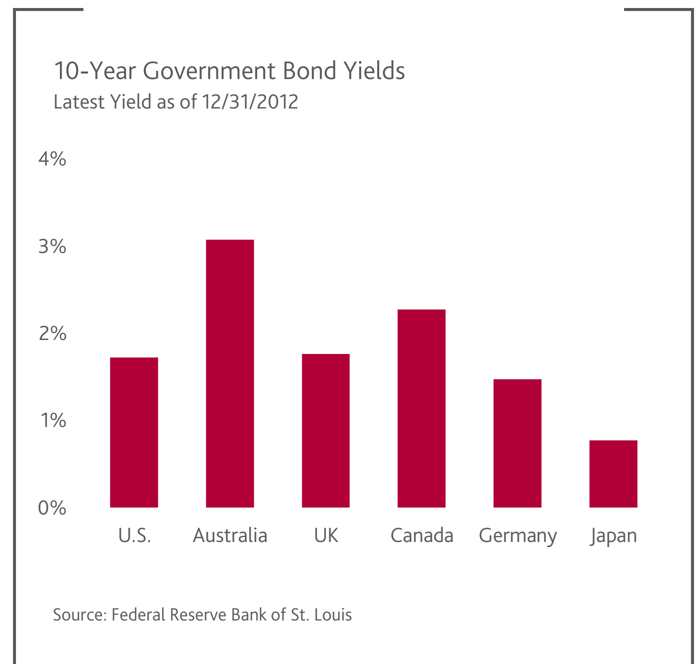
Overview

Although the investment grade corporate sector fell modestly for the month, other risk and spread products outperformed as investors transitioned out of safe-haven U.S. Treasuries. Looking back at 2012, U.S. interest rates dropped to levels lower than at any point in history since 1925, including the Great Depression. These low rates have persisted, supported by central bank policy and a pattern of panic buying from investors seeking what they perceive to be safe assets in developed economies. As such, since 2007 when impaired subprime loans began to permeate the global economy, investors dumped approximately $1 trillion into bond funds while redeeming $85 billion from long-only equity funds.

Meanwhile, the four-week T-Bill rate fell below 0% mid-month as market participants speculated temporary FDIC insurance on some bank-deposit accounts would end as scheduled on December 31, driving demand for short-term securities sharply higher. Introduced in the wake of the 2008 credit crisis, this insurance program guarantees $1.5 trillion in non-interest bearing transaction accounts that exceed the general limit of $250,000. Because this program did expire, many strategists expect robust demand for T-Bills to continue as banks look to securitize these deposit accounts.

The Fed announced this week at their FOMC meeting they would move ahead quicker than expected in using numerical thresholds to provide forward rate guidance. Specifically, they will keep rates near 0% as long as the unemployment rate is above 6.5%, provided their one- to two-year inflation forecast does not rise above 2.5%. As expected, in an effort to continue to stimulate economic growth, the Fed also announced a program to purchase $45 billion of Treasuries monthly, after Operation Twist ends at the end of December. However, minutes from the Fed's FOMC meeting show a divide among voting members on how long the central bank's bond buying program should last. Several Fed members said it would be appropriate to end the purchase somewhere around mid-2013. Strategists are now beginning to question whether yields,





which have been stuck in a trading range over the past six months, might start to move even higher, with some recommending an outright sale of all government debt. Technical analysts, who follow moving averages and other indicators, feel if the yield on the 10-year note remains near its current levels, a spike is likely. At the same time, yields on Treasuries with maturities out to approximately 2022 remain below the rate of inflation, which suggests U.S. Government debt offers investors an extremely low expected return/high risk opportunity at this time.

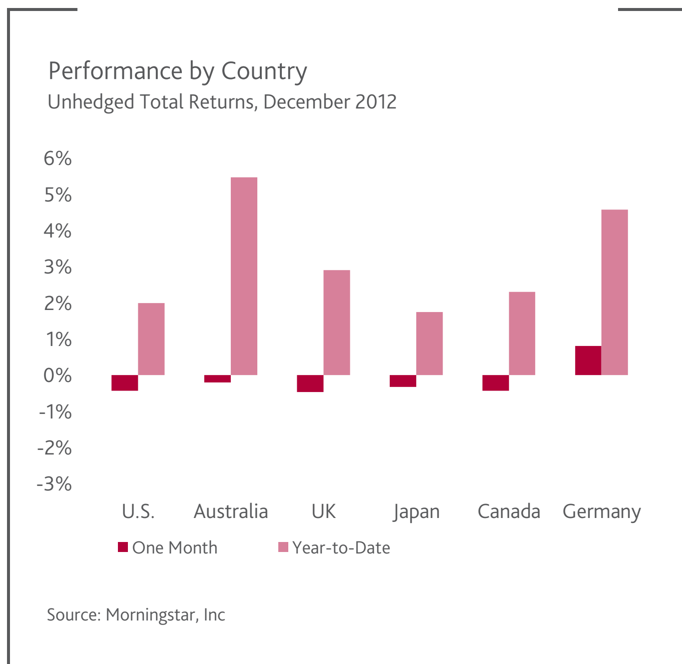
Corporate

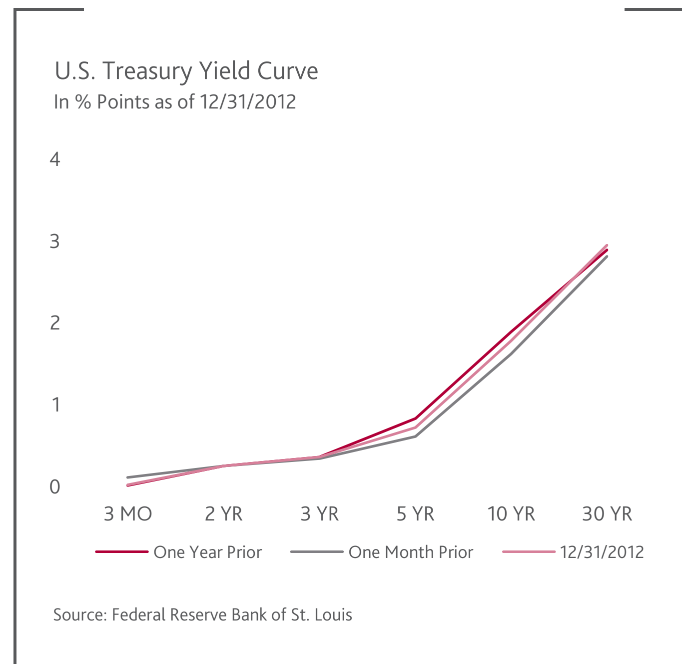
The investment grade corporate sector finished the month modestly lower, dropping 0.06% and bringing year-to-date gains to 9.82%, the strongest year since 2009. Although yields remain near all-time low levels, demand remains robust with strong inflows into mutual funds and ETFs. Many strategists expect more modest results in 2013 given tighter spreads along with high price points. From a sector perspective, essential infrastructure banks, defined as banks critical to the operation of the U.S. financial markets, are starting to look more attractive; the debt of many of these banks might be mispriced due to the recent cycle of credit downgrades and negative headlines.

High yield bonds rallied 1.58% for the month, bringing year-to-date gains to 15.81%, also the best year since 2009. However, concerns in the high yield market continue to mount as investors, desperate for yield, pour into junk-bond mutual funds and ETFs with sales easily surpassing record levels. At the same time, the average yield on high yield bonds fell below 6% for the first time ever, suggesting a benign outlook from a valuation perspective. With prices nearing their highest levels in a decade, nearly 46% of high yield bonds are at or above prices at which companies could buy them back. Twelve months ago, the level was 27% and the long-term average is 15%, suggesting an increase in the level of calls and lower yields going forward. Given these concerns, many strategists now feel investors should focus on lower duration products in this sector or other areas of the market going forward.

Municipals

After a six-month rally in municipal bonds, demand in this sector faltered last month with the Barclays Municipal Bond index falling by 1.24%, bringing year-to date gains to 6.98%. A mass exodus from muni mutual funds by retail investors led to the steepest monthly loss since December 2010 when banking analyst Meredith Whitney incorrectly predicted a significant increase in defaults. While current defaults remain near all-time lows, concerns have escalated that President Obama's proposal to limit the income tax deduction on munis to 28% may come to fruition. George Friedlander, Citigroup's chief municipal strategist noted in a recent report, "The bottom line is that the muni market was clearly hurt by the perception that both sides might agree to this. The cap on the benefit is not a done deal, so the impact would probably increase if the retroactive cap actually becomes law." However, in an effort to thwart this proposal, Municipal Bonds for America, a coalition of state and local governments and Wall Street groups, sent a report to congressional leaders outlining the negative consequences of implementing such a cap, namely higher borrowing costs for municipalities. Despite the negative sentiment in this segment of the market, some investors feel munis are now attractive, with Bill Gross of PIMCO putting high-quality munis on his list of "picks" and increasing his allocation to this sector to the highest levels since 2006. From a credit quality perspective, state issuers should continue to improve, with slow but ongoing economic growth resulting in increased revenues. Specifically, most states will enter 2013 with the least amount of budget deficits since late 2007. Overall, we feel moderate investor demand and expectations of higher tax rates will be a positive for municipal bonds going forward, balanced by the effects from potential changes to the muni tax exemption.





International

The Barclay's Global Treasury ex-US index gained 0.12% on an unhedged basis, but lost 1.13% on a local currency basis, consistent with a stronger U.S. dollar against other major currencies. Despite a modest gain for the index, many safe-haven countries rose in their local currencies, with Germany and France posting sizable gains for the month. Italy (+0.56%) and Spain (+1.10%) rose once again in their local currencies as market participants returned to some of the riskier eurozone regions amid improving investor sentiment.

Looking back at 2012, European breakup risks influenced much of the bond market moves during the first half of the year. However, as summer approached, a dramatic change in sentiment struck when risks for a breakup started to abate. Since then, Italian and Spanish 10-year yields fell by over 2.50% while key benchmarks, like the spread between German and Italian government debt, trended lower indicating a shift towards normality. Strategists expect this recovery to continue amid comfortably bullish momentum, allowing for further gains without exhausting buyers. This stable trajectory implies the worst-case scenario risks in Europe have been reduced, leaving investors with attractive opportunities in this sector of the bond market.

Outlook

We expect another year of positive returns in 2013. However, with tighter spreads excess returns are expected to be lower than those reported this year. We believe events such as mass purchases of longer-term U.S. Treasuries and European Central Bank (ECB) buying eurozone debt coupled with generational low yields should keep the hunt for yield alive and well during the first half of 2013. Investors will likely be forced to seek outperformance in parts of the market with higher risk, such as BBB rated paper in investment grade bonds and CCC bonds in the high yield market. We feel the key for this year is determining when the long-term bull cycle will transition into a new bear market. We think investors should prepare for modestly higher yields sometime during the latter half of the year amid a gradual move away from a potential crisis to a more "normal" environment. In our opinion, municipal bonds, short-duration high-yield, floating rate notes and international are sectors likely to hold up well during this transition.

From an international perspective, European bonds are beginning 2013 with historically low yields, particularly Germany, France, Finland and the Netherlands. However, many strategists expect the fundamental political and economic environment to remain supportive of European fixed income markets, especially for higher risk assets. Deleveraging is still the primary goal for both governments and banks, with the center of the public savings discussion partially moving away from Europe to the United States and Japan. Against this backdrop, we expect the G4 central banks (the Bank of England, the Bank of Japan, the Federal Reserve and the European Central Bank), to remain in expansion mode well into 2014 or even 2015, thus keeping interest rate curves relatively steep.

Stocks post small gains again in December

Total Returns	1 Month	YTD
Dow Jones Industrial Average	0.79%	10.24%
S&P 500	0.91%	16.00%
NASDAQ Composite	0.45%	17.45%
S&P 100	0.21%	16.05%
S&P 400 MidCap	2.19%	17.88%
S&P 600 SmallCap	3.30%	16.33%
Russell 2000	3.56%	16.35%
MSCI EAFE	3.21%	17.90%

1 Month and YTD data as of: 12/31/2012

Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc.

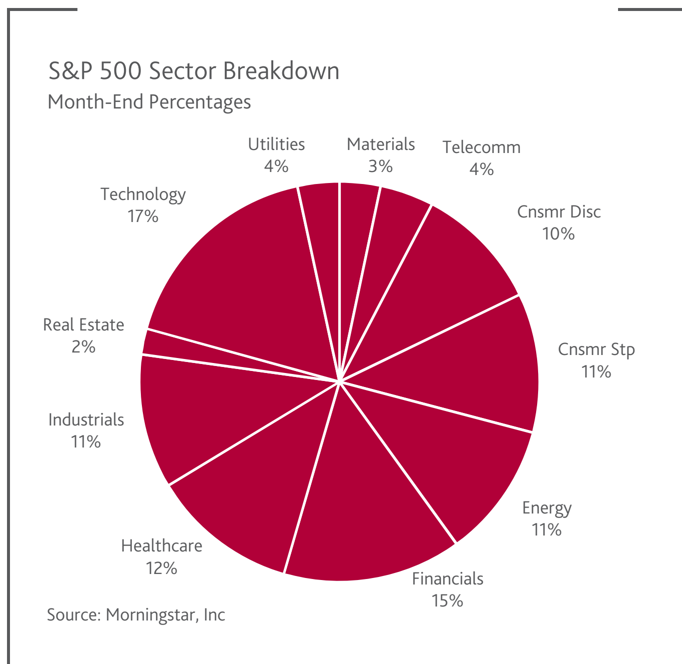
Overview

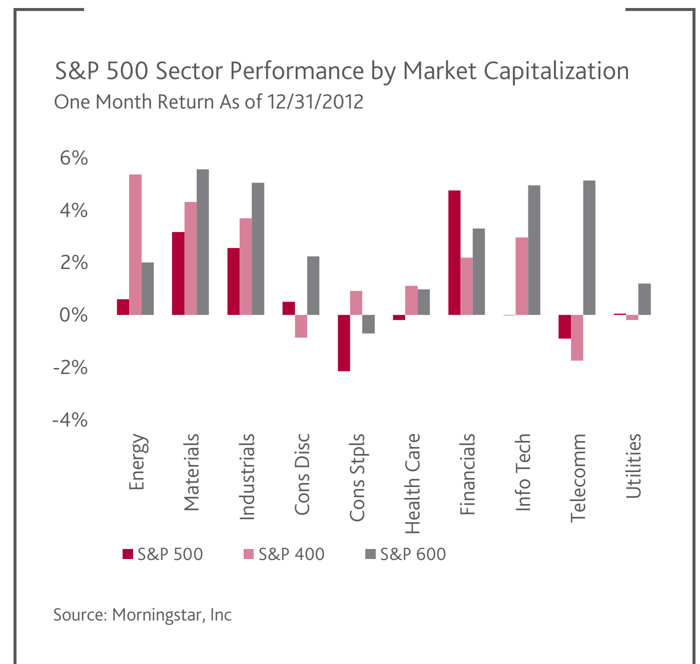
Most major stock markets were flat-to-slightly positive in December to close out another volatile year. As policymakers in Washington disagreed over the best solution to the 'fiscal cliff' dilemma, investors bid up stocks to near five-year highs mid-month, only to sell shares leading into the holidays as it appeared a deal would not be reached. Stocks rallied on the final trading day of the month and year when it finally appeared as though a 'fiscal cliff' deal was within reach.

The return for the Dow Jones Industrial Average in December was 0.8%, -1.7% for the fourth quarter and 10.2% for the full year. The broader S&P 500 Index returned 0.9% for the month, -0.4% for the quarter and 16.0% for 2012. And the technology heavy NASDAQ Composite Index returned 0.5% for the month, -2.7% for the quarter and 17.5% for the year; this compares to returns of 8.4%, 2.1% and -0.8%, respectively, in 2011.

Domestic Equity

The Financials sector (+3.2%) posted the strongest returns of the S&P large cap sectors in December, while both Materials (+3.2%) and Industrials (+2.6%) also outperformed for the second month in a row. Bank of America (17.9%) and Citigroup (+14.4%) led the financials group to finish the year up 109.8% and 50.6%, respectively. Sector rotation into late stage cyclical sectors boosted returns for leading Materials companies such as US Steel (+10.6%), Dow Chemical (+9.1%) and International Paper (+7.3%). Industrial stocks that performed well include Fastenal (+12.8%), Flour Corporation (+10.8%) and Expeditors International (+5.7%). Consumer Staples (-2.2%) and Telecomm Services (-0.9%) both had negative returns for the month. High dividend paying stocks within Consumer Staples and Telecomm Services including Phillip Morris International (-6.0%), Altria (-5.7%) and Frontier Communications (-8.9%) sold off on uncertainty regarding dividend tax rates in 2013. For the year, Financials (+28.8%), Consumer Discretionary (+23.9%) and Telecom Services (+18.3%) led all sectors. Utilities (+1.3%), Energy (4.6%) and Consumer Staples (+10.8%) were the weakest sectors in 2012.





According to S&P, large cap equities underperformed both mid cap and small cap in the month of December. The S&P 500 Index returned 0.9% compared to returns of 3.3% for the S&P Small Cap 600 Index and 2.2% for the S&P MidCap 400 Index. For the year, mid cap equities had the highest returns (+17.9%), followed by small cap (+16.3%) and large cap (+16.0%).

Value outperformed growth across the market capitalization spectrum last month. The return for the S&P 500 Value Index was 2.2%, ahead of the flat return for the S&P 500 Growth Index. The S&P MidCap 400 Value Index (+3.1%) was much stronger than the S&P MidCap 400 Growth Index (+1.3%). Finally, the 3.5% return for the S&P SmallCap 600 Value Index was better than the S&P SmallCap 600 Growth Index return of 3.2%. Returns for value stocks were also better than growth for the full year. The S&P 500 Value Index outperformed the S&P 500 Growth Index (+17.7% versus +14.6%), as did the S&P Mid Cap Value Index compared to the Mid Cap 400 Index (+18.5% versus +17.3%). Relative outperformance by value over growth was strongest in the small cap arena as the S&P Small Cap Value Index return was 365 bps better than the S&P Small Cap Growth Index (+18.2% versus +14.6%) in 2012.

International Equity

International equity indices were quite strong in December and the final quarter of 2012. The broad MSCI EAFE Index of developed markets had a total return of 3.2% in U.S. dollar terms in December. Portugal (+9.6%), Japan (+5.3%) and Ireland (+5.8%) all outperformed. The UK (+2.1%) and Hong Kong (+0.9%) trailed the benchmark. Investors bid up prices of international shares despite the continued uncertainty of when and how Europe will return to growth, better than expected economic data from Germany and the S&P upgrade of Greece's debt. For the full year, the MSCI EAFE Index return of 17.9% more than offset 2011's decline of 11.7%. The fourth quarter was especially strong with the MSCI EAFE Index (+6.6%) significantly outperforming flat-to-negative domestic returns. Individual country returns in 2012 ranged from -3.9% for Israel to 40.7% for Belgium. In the major developed markets Germany's 32.1% return significantly outperformed Japan's 8.4% increase.

The total return for the MSCI Emerging Markets Index was 4.9%, led by Brazil (+7.7%), Poland (+8.5%) and Russia (+6.2%). China's return (+4.8%) was in-line while India was flat. After a relatively poor year of performance, Brazil improved for the month due in part to a higher proportion of materials and energy stocks which were strong in December. For the full year, MSCI Indices in India (+26.0%), China (23.1%) and Russia (+14.4%) have all posted strong returns, while Brazil was flat as the country struggled with a rapid decline in GDP growth.

'Fiscal Cliff' concerns impact Commodities and Hedging Strategies

Price Change	1 Month	YTD
Dow Jones UBS Commodity Index	-2.22%	3.73%
Oil	3.72%	-7.08%
Copper	-0.82%	4.27%
Gold	-2.15%	6.96%
NAREIT-All REITs	2.44%	14.98%
NAREIT-Industrial/Office	3.62%	15.10%
NAREIT-Residential	3.07%	9.68%
S&P Global Property Ex-US	4.45%	40.88%
HFRI Emerging Markets Index	3.30%	10.30%
HFRI Fund Wtd Comp. Index	1.26%	6.16%
HFRI Equity Market Neutral	0.50%	3.27%
HFRI Event Driven	1.63%	8.54%
HFRI Market Defensive	0.94%	-1.20%
HFRI Merger Arbitrage	1.34%	2.98%
HFRI Short Bias	-3.02%	-17.46%

1 Month and YTD data as of: 12/31/2012

Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc.

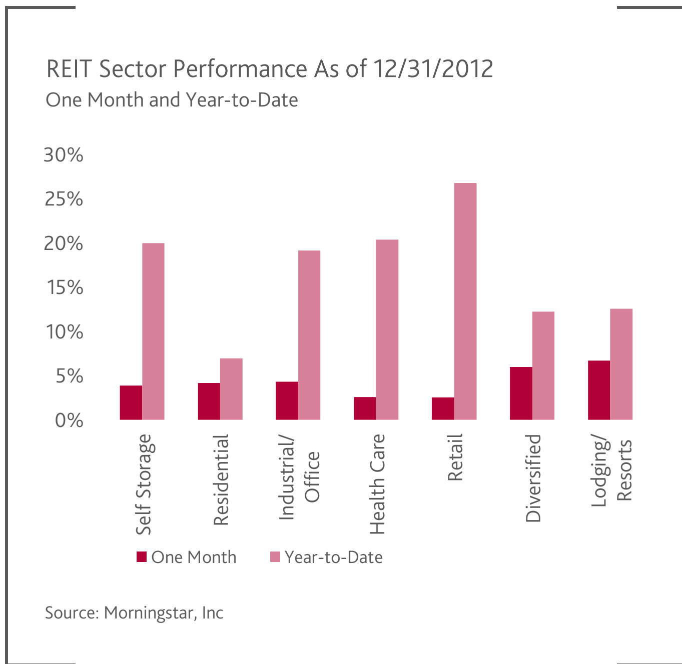
Overview

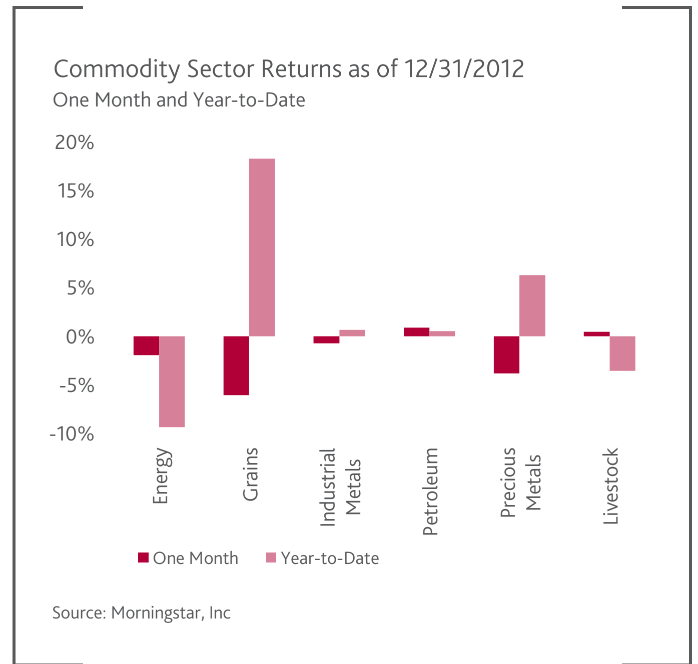
The 'fiscal cliff' had an impact on performance across the various alternative asset classes. On the year, REITs lead commodities and hedging strategies, despite slowing growth in December. Oil rebounded for the month, but not enough to compensate for the negative performance throughout the year. Gold dropped in December, but remains positive for the year as investors flocked to the metal as a safe haven asset during periods of volatility and uncertainty.

Commodities

The Dow Jones UBS Commodity Total Return Index dropped 2.61% in December after a flat November. Brent Crude gained 0.50% and West Texas Intermediate Crude gained nearly 4% as the 'fiscal cliff' proved to not have nearly as large of an impact on energy prices as analysts had predicted. WTI fell over 7% on the year as U.S. oil consumption has slumped due to technological enhancements and weather-related factors, namely warmer temperatures among other things. These effects have kept oil prices in check despite bumps from events such as tensions in the Middle East and storms in the Gulf. According to government data, domestic oil demand in October was 18.7 million barrels per day, the lowest figure for that month since 1995, while U.S. production and supply have been steadily growing to new highs. This is good news for the consumer, who should see lower gasoline and heating costs. With new pipelines running between the Gulf of Mexico and the Northern U.S. oil fields, the Energy Information Administration (EIA) officially predicts Brent Crude prices will fall to as low as $105/barrel in 2013 and $99/barrel in 2014, barring any major supply disruptions.

Despite a 1.2% gain on December 31 as the year came to a close with no 'fiscal cliff' solution, gold dropped over 2% in the last month of the year as investors saw continued strength in the stock market and positive economic news was reported. Interest rates are still so low from the Fed's easing policies that holding gold is justifiable due to the lack of opportunity costs of holding gold instead of government





securities; this leads the precious metal to be less correlated to equity prices than it has been historically, causing unconventional factors to have a more powerful effect on the price of gold.

Agricultural commodities did not fare well in December; the S&P GSCI Agricultural Index fell nearly 6% as corn, coffee, soybeans and wheat all fell significantly for the month. Despite poor winter performance corn, soybeans and wheat ended the year with gains still remaining from the summer drought across the Midwest and the resulting price jump. Internationally, coffee and sugar prices fell as supply in Africa and South America outpaced global demand in 2012.

Hedge Funds

Hedge funds benefited last month as equities posted strong gains on the year's final trading day in anticipation of the passage of legislation to avoid the U.S. 'fiscal cliff'. The HFRI Fund Weighted Composite Index gained 1.3% for December, bringing its year-to-date performance to 6.2%, according to Hedge Fund Research (HFR). The HFRI Fund Weighted Composite Index posted gains in six of the year's final seven months, approaching the index's record high value. Event Driven funds led the industry last month, with strong contributions from a dynamic merger and acquisition environment, accessible credit markets and tightening high yield spreads contributing to the 1.63% gain. For the year, Event Driven funds advanced 8.5%, ending the year with seven consecutive monthly gains. The HFRI Equity Hedge Index gained 1.6% in December, ending 2012 with gains in six of the last seven months, bringing its year-to-date return to 7.4%. Emerging Market funds posted returns of 3.30% last month, closing out the year up 10.30%. According to Kenneth Heinz, president of HFR, since the financial crisis in December 2008 the hedge fund industry continues to evolve and advance as "powerful trends define and shape the significance and influence of the hedge fund industry on financial markets, asset pricing and investors in 2013".

Real Estate

Real estate investment trusts (REITs) ended 2012 just as they started it. The FTSE NAREIT All REIT index gained 3.20% last month, bringing year-to-date gains to 20.14%. The FTSE NAREIT All Equity REIT Index also posted a strong December, gaining 3.65% and now up 19.70% on the year, well outperforming the 16% return from the S&P 500. In terms of investment performance by property sector and subsectors, December was a strong month for the majority of all REITs. Leading the way were Lodging/Resort REITs, gaining 6.68% last month, bringing their year-to-date total to 12.53%. Retail REITs, composed of shopping centers and regional malls, have been thriving for most of the year but returned only 2.53% for December; the sector was still up 26.74% on the year. Industrial/Office REITs returned 4.29%, bringing the sector to 19.12% on the year. The best performing sector in 2012 was Timber REITs which gained 2.40% last month, closing out the year up 37.05%. The only downfall for REITs in December came in the form of Mortgage REITs. Made up of Home Financing and Commercial Financing, the FTSE NAREIT Mortgage REIT Index lost 1.33%, ending the year up 19.89%.

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