January 2014

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BANK AT HOME PremierBank

Is the U.S. Economic Growth Self-Sustaining? The Fed Thinks So…

Recent Economic Indicators

Indicator	Value
Thomson Reuters/Univ. of Michigan Consumer Sentiment	82.5
Consumer Confidence	78.1
Existing Home Sales, Monthly Change	-4.3%
New Home Sales, SAAR*	464,000
Personal Income, Monthly Change	0.2%
Personal Consumption Expenditures, Mo Chg	0.5%
Non-farm Payroll Increase/Decrease	74,000
Unemployment Rate	6.7%
ISM Non-Manufacturing Index	53
ISM Manufacturing Index (PMI)	57
New Durable Good Orders, Monthly Change	3.5%
Industrial Production, Monthly Change	1.1%
Capacity Utilization	79
Retail Sales, Monthly Change	0.7%
CPI, Monthly Change, SA	0.0%
CPI Core, Monthly Change, SA	0.2%
PPI, Monthly Change, SA	-0.1%
PPI Core, Monthly Change, SA	0.1%
U.S. Trade Deficit	34.3 Bil
Q3 2013 Non-farm Productivity, Qtrly Chg	3.0%
Q3 2013 Real GDP, Quarterly Change, SAAR*	4.1%

*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.

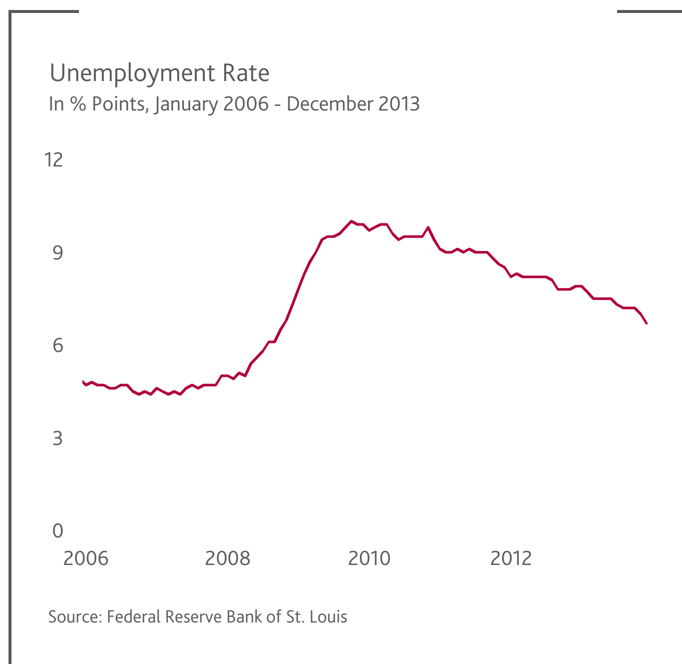
Overview

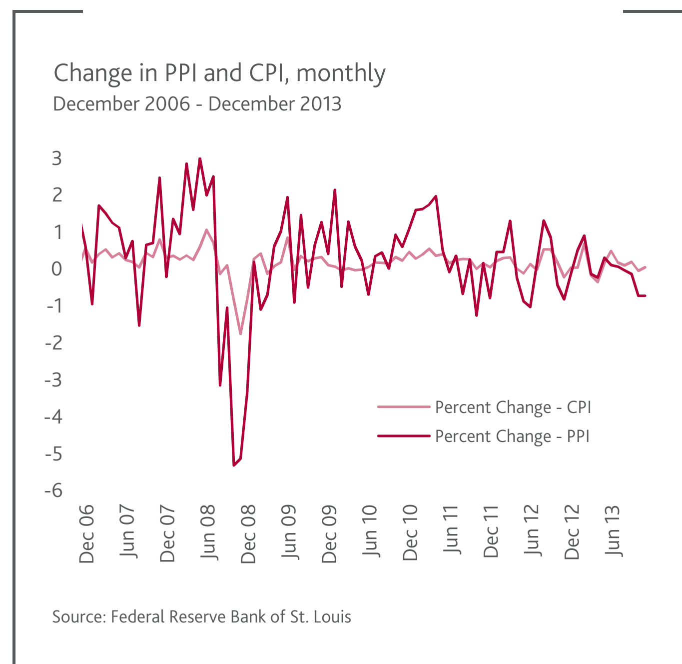
The final report of the third quarter real GDP was revised up to a 4.1% annual rate, easily outpacing the prior estimate of 3.6% and 2.5% in the second quarter. Initial GDP for the quarter was reported at 2.8% and subsequently revised higher to 3.6%. The main GDP drivers were inventories, consumer spending, and to a lesser degree, business spending. Net exports and government purchases were the weakest contributor. Meanwhile, China has likely expanded at 7.6% this year, according to the report by the State Council. While this is still better than 7.5% target set by Chinese government, it's also a third straight drop in the growth rate for the second largest economy in the world.

The global economy is set to grow at its strongest pace since 2010, according to economists polled by Bloomberg. The economists expect global GDP to accelerate to at least 3.4%, with the U.S. and the U.K. at the forefront of the recovery. The report calls for a more sustainable growth in 2014, which would boost corporate confidence and equity markets, while propelling energy demand and consumer wealth.

The key policy headline in December was the Fed's announcement to cut its bond purchase program by $10 billion to $75 billion per month beginning in January 2014. This process will be gradual and interest rates will remain low for quite some time, meaning that monetary policy likely remains accommodative through mid-2015. However, the Fed's decision is clear evidence that the U.S. economic expansion is self-sustaining which should be supportive for risky assets. This long-awaited move finally puts to bed the continuous conversation of when the inevitable tapering will take place. Market participants can now focus on the effects of this decision on the economy and financial markets, both domestic and global.

U.S. companies are helping investors lean towards optimism in 2014, Ford, GM, and Apple among them. Ford announced in December that it will add 5,000 new jobs in Dearborn, Michigan, and expects spending in North America to increase next year. Apple, in addition to





building a new plant in Mesa, Arizona, is making a point to announce that its new Mac Pro computer is now available for order and is being built in Austin, Texas with U.S.-made components.

Employment

The ADP private employment report for December came in better than expected and showed an increase of 238,000 jobs. This bodes well for the government report due out January 10th. The December government report was issued on the second Friday in January instead of the first Friday due to the holidays. The ADP report showed a surprising increase of 48,000 construction jobs reflecting a continuing recovery in the housing market. Professional and business services also showed strong gains. The job gains were broad based with trade, transportation, utilities and manufacturers also adding jobs for the month. The three month average has risen to almost 225,000 per month, the fastest pace in 21 months. The strong ADP report indicates support for the Fed's planned tapering program and could indicate positive economic momentum going into 2014.

Inflation

The November headline inflation reports showed no price changes at either producer or consumer levels, largely due to lower energy prices. This could carry over into 2014 as the latest EIA Petroleum Status Reports for December indicate heavy gasoline supplies, which should limit price increases at the pump. Also, Fed tapering will likely strengthen the U.S. dollar, which in turn, should keep commodity prices in check. The core inflation measures, which exclude volatile food and energy components, were soft as well on a month-to-month basis. The core PCE price index, CPI and PPI respectively rose by 0.1%, 0.2% and 0.1% in November. Inflation generally remains contained as all three measures stayed below the Fed's 2% target over the past 12 months. Low inflation levels, if continued, should support economic growth over the next year. The Fed is currently forecasting gradual growth in core PCE inflation to 1.4%-1.6% in 2014, 1.5%-2.0% in 2015 and 2% in the long run.

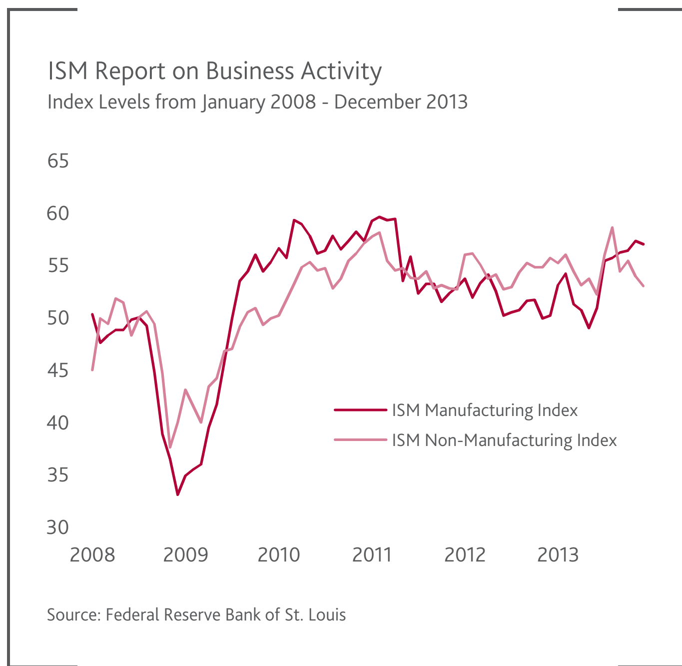
Retail Sales and Consumer Spending

U.S. retail sales were strong in November despite some indication that Black Friday sales were mildly disappointing. A 0.7% gain in retail sales in November after a positive 0.6% gain in October indicates increased strength in consumer spending after a weak third quarter. Higher stock markets, lower gasoline prices, and increased property values helped boost households' net worth, allowing consumers to spend more on discretionary items. Sales were strong across the entire spectrum of businesses, from internet retailers to brick-and-mortar furniture outlets, and auto sales were particularly promising.

Following a 0.1% decline in October, personal income gained 0.2% in November. The rebound was largely driven by increases in wages/salaries (+0.4%) and personal dividend income (+0.7%) while proprietors' income slipped for the second month in a row (-0.4%). At the same time, personal consumption expenditure (PCE) data showed that spending increased in November (+0.5%). Equally important, the PCE was revised up in October and September, indicating that the government shutdown scare had little impact on consumers' spending practices. Year-over-year personal income and spending are up 2.3% and 3.5% respectively. Any further improvements in employment data should bode well for both income and spending growth.

Consumer Confidence

U.S. consumers appear to be a little more upbeat going into 2014. The University of Michigan Consumer Sentiment Index for December was reported at 82.5 compared to 75.1 in the previous month. An improving economic outlook is the major driver behind the positive sentiment reading. Similarly, the Conference Board's Consumer Confidence Index picked up in December as stronger hiring numbers boosted economic expectations for 2014, particularly with regards to consumer spending. After a 72.0 November release the index now stands at 78.1, the highest year-end report since 2007. Also, the rise in home values has certainly lifted overall consumer confidence last year.



Housing

New home sales declined 2.1% in November due to weakness in the Midwest and South regions; however, new sales are up 16.6% from a year ago. The S&P/Case-Shiller Home Price Index release noted that home values across 20 U.S. cities rose a remarkable 13.6% year-over-year in October after a similar gain of 13.3% year-over-year in September. Low inventory levels continue to provide a price boost despite rising mortgage rates. However, the pace of price increases will likely slow in the future as the builders add more supply.

Housing starts showed strong gains in November after weak data in the previous two releases, which were affected by the government shutdown. The November report marked a jump of 22.7% to an annualized figure of 1.091 million units, topping analyst estimates significantly. Furthermore, lumber sales, a leading housing indicator, have increased sharply over the past month during an already steady climb since 2011. This trend could translate into continued strength in the homebuilding market and a more positive housing market in 2014 as housing starts and lumber orders have been strongly correlated over the past 20 years.

Business Activity

New orders for durable goods surged 3.5% in November, easily outpacing the consensus estimate of 2.0%. Contrary to the last month, the transportation sector was the largest contributor, accompanied by industrial machinery. Excluding transportation, new orders were still strong at 1.2% relative to 0.7% consensus. The prior month was also revised up, bringing the annual gain to a respectable 10.9%. In addition, the report showed that unfilled orders rose to a new record high, up 1% in November and 7.8% for the past year. This trend is a good sign for the economy, given strong historical correlations between durable goods orders and employment/GDP data.

U.S. Industrial production climbed (+1.1%) in November after a revised (+0.1%) gain in October. The October number was originally reported as a slight drop (-0.1%). The increase in November was the largest monthly gain since November 2012. The manufacturing element increased 0.6% for its fourth consecutive monthly gain. Similarly, in another sign that the U.S. manufacturing is accelerating, the ISM Manufacturing Index registered a reading of 57.0 for December, slightly below November's 57.3 level which was the highest reading for the year. The index currently stands near its 2.5 year high, suggesting that manufacturing activity remains exceptionally strong. As was the case last month, new orders advanced and have led to an increase in the employment component of the index. Along with a decline in inventories, this continues to point to future gains in production activity. On average, manufacturing gains in 2013 can be attributed to recovering developed economies worldwide and a resurgence of business investment in the U.S., both of which will continue to act as tailwinds for the manufacturing sector.

Most Major Fixed Income Markets Post Losses Again

Fixed Income Current Yields		12/31/2013
3 Month U.S. T-bill		0.07%
2 Year U.S. Treasury		0.38%
5 Year U.S. Treasury		1.75%
10 Year U.S. Treasury		3.04%
30 Year U.S. Treasury		3.96%

Total Returns	1 Month	YTD
Barclays U.S. Aggregate	-0.57%	-2.02%
Barclays U.S. Govt./Credit	-0.63%	-0.84%
Barclays U.S. Municipal Bond	-0.26%	-2.55%
Barclays U.S. Corp. High Yield	0.52%	7.57%
Barclays U.S. Long Credit A	0.20%	-6.62%
Barclays U.S. Treasury 20+ Year	-1.97%	-13.88%
Barclays Global Aggregate	-0.60%	-2.60%
Barclays Emerging Markets	0.31%	-4.12%

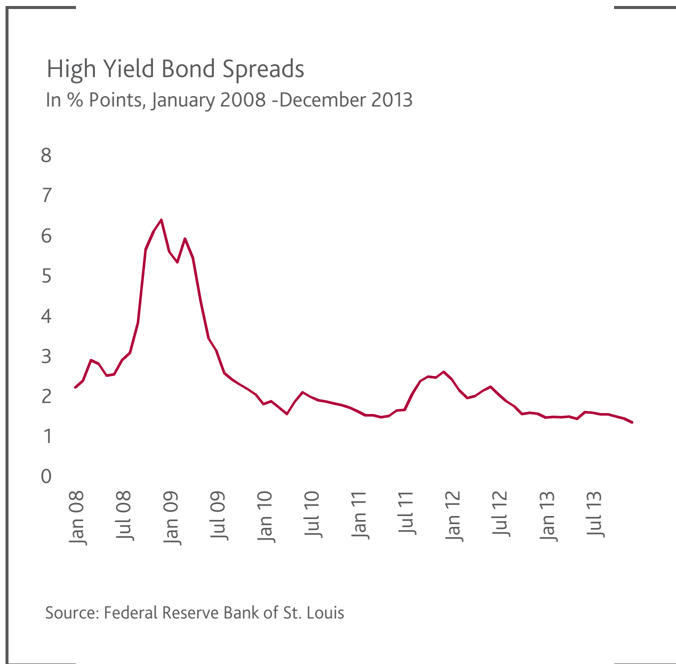
1 Month and YTD data as of: 12/31/2013

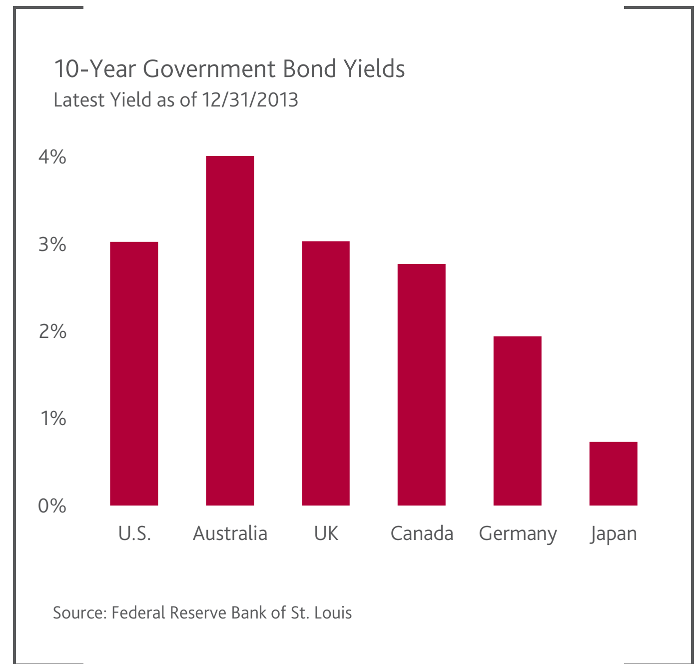
Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc., U.S. Department of the Treasury, Barclays Capital

Overview

Largely attributable to the Federal Reserve announcing it will begin to trim its bond-buying program, most sectors in the bond market fell for the month, as technicals (supply versus demand) overwhelmed the markets. The yield on the 10-year Treasury note rose as high as 3.04%, up from this year's low of 1.63% reached on May 2 and the steepest level in almost two years. The central bank announced a plan to wind down its quantitative easing policy, taking a step known as "tapering" while ending months of discussions within the Fed and the financial markets. Starting in January, they will trim purchases of Treasuries and mortgage-backed securities by $10 billion from its current $85 billion monthly pace, a slightly slower level than previously expected. At the same time, market participants will need to factor into bond market expectations the central bank's short-term interest rate policy, which should remain near zero for a long period according to Fed chairman Bernanke. At these levels, many strategists feel Treasuries have already priced in an improving U.S. economy, with the only thing that could cause a paradigm shift in market expectations being a weaker-than-expected jobs market.

From a valuation perspective, Treasuries remain very expensive relative to historical averages. The Federal Reserve's "term premium" model indicates yields on government debt are roughly 0.94% lower than what is considered fair value. The average over the past decade has been a 0.50% premium. Alongside this, yields on Treasuries with maturities out to approximately 2022 remain near the rate of inflation, which suggests U.S. Government debt offers investors an extremely low expected return/high risk opportunity at this time.





Corporate

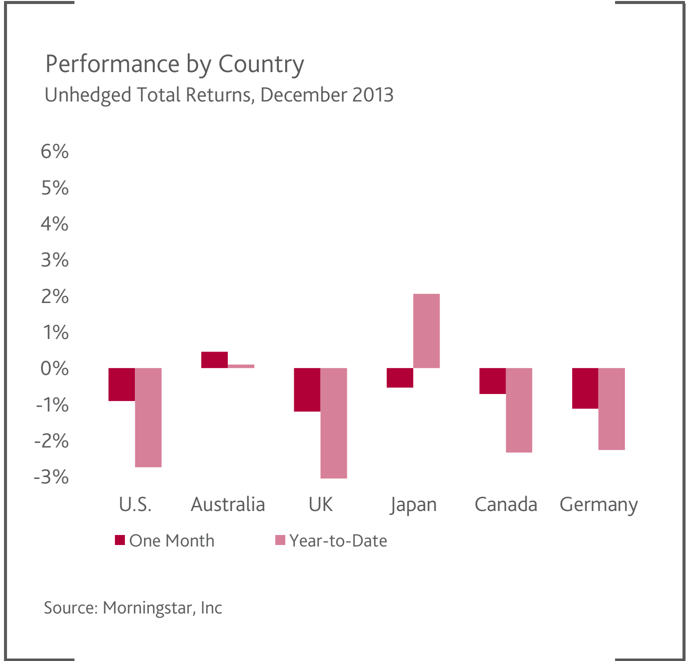
The investment grade corporate sector finished lower, dropping 0.16% and bringing year-to-date returns to -1.53%. After widening earlier in the year, investment-grade corporate bond spreads have tightened to levels not seen since before the financial crisis of 2008, with strategists excepting some further tightening in the short term. However, most of the credit spread tightening phase has likely run its course, as credit analysts have a balanced view that corporate credit risk will remain stable or improve slightly. For this reason, we feel this sector remains modestly attractive. However, with rate volatility likely to remain elevated, managing duration exposure will be critical in this sector going forward.

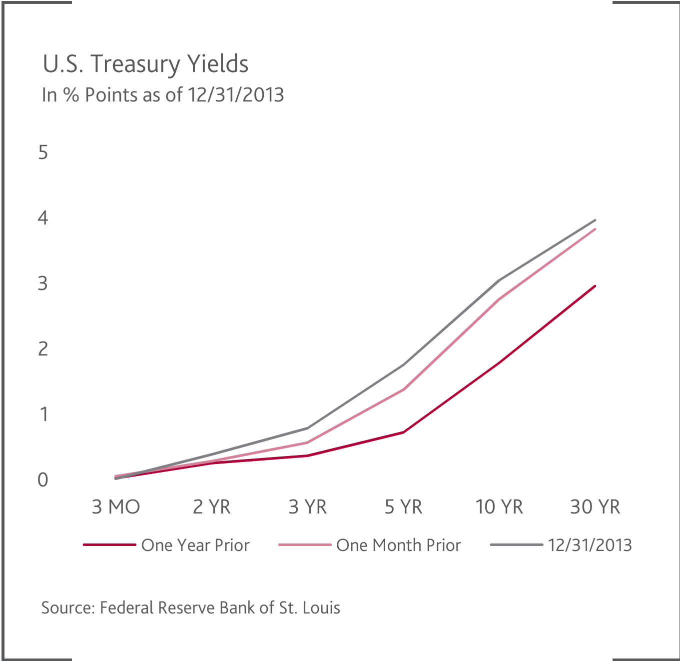
Once again, high-yield bonds gained for the month, rising 0.52% and bringing year-to-date returns to 7.57%. With most high yield companies having finished refinancing existing debt and interest rates set to rise, many strategists feel next year's bond issuance will largely be a function of volume in the M&A and leveraged-buyout markets. This suggests high yield bond issuance might decline by 10% to 15% next year. With low interest payments, high interest coverage ratios and a macroeconomic environment many think will point towards solid growth in the back half of next year, default pressures are expected to be very low in 2014.

Municipals

Challenges continued in the tax-exempt market with the Barclays Municipal Bond index falling by 0.26%, as mutual fund and ETF outflows continued. A combination of higher yields, credit concerns and outflows triggered a sell-off for the year, with the index falling 2.55%. However, despite these concerns, a new report by the Rockefeller Institute highlighted the improving fiscal status of most municipalities. According to the article, "State Revenue Report", compiled using data from the Census Bureau, total state tax collections have increased for 14 consecutive quarters.

Meanwhile, uncertainties in the muni markets waned as Illinois lawmakers approved a reform of the state's severely underfunded pension system after months of negotiations. The plan aims to fully fund the state's $100 billion pension shortfall by 2044 while saving Illinois an estimated $160 billion in interest payments over 30 years. Despite strong opposition from organized labor, this is an important step toward placing the state and its pension systems, among the worst funded in the country, on a more stable financial footing. Unions will challenge the legislation, arguing that government workers should not be punished for decades of mismanagement and corruption by state officials. Without passage of the bill, Illinois, already among the lowest rated states, faces further downgrades.





International

The Barclay's Global Treasury ex-US index fell by 0.97% on an unhedged basis, but dropped only 0.56% on a local currency basis, consistent with a stronger U.S. dollar against other major currencies. Most major country government bonds posted losses including Canada, Germany, the United Kingdom and France as investors focused on riskier asset classes. Because Spanish and Italian government debt remain in high demand for many market participants given their wide spreads, these bonds posted positive returns for the month.

Separately, new European Union rules will require S&P, Moody's and other credit rating agencies to make public the dates on which they review a country's rating. Specifically, the regulation requires ratings companies to submit a 12-month calendar to regulators showing when they plan to publish solicited and unsolicited sovereign ratings. These new rules are part of a number of increased regulations on the agencies after euro zone officials noted they exacerbated the region's debt crisis by downgrading the ratings of struggling countries at critical moments. "Credit-rating agencies will have to be more transparent when rating sovereign states and will have to follow stricter rules, which will make them more accountable for mistakes in case of negligence or intent," Michel Barnier, the EU's financial services chief, said in a statement. With respect to legal liability, investors and credit issuers will be able to claim damages from a ratings company if they suffer losses because of malpractice or gross negligence in the drawing up of assessments. However, although intended to make the ratings process more transparent, some policy-makers warn countries might try to game the new system by delaying bad news until just after the pre-scheduled review dates. Based on the new regulations, ratings firms will only be able to make changes outside the pre-set timetable in extreme cases, including a significant change in a country's financial stability.

Puerto Rico's Debt Overload

In May of 2012, we recommended the sale of all Puerto Rico municipal bonds, despite having an investment grade rating by Moody's and S&P. We suggested the region was extremely leveraged as measured by the combination of debt, unfunded pension liabilities and health care as a percentage of GDP. Given their poor economic status, we felt it was unlikely they would be able to generate sufficient tax assessments to meet these obligations, suggesting the market would eventually recognize this risk leading to pricing pressures.

We might have been early, but in 2013, Puerto Rico's bonds came under considerable pressure, underperforming similarly rated municipal bonds by a wide margin. While Governor Alejandro Garcia Padilla says the territory and its agencies will repay their obligations on time and in full, an economy that contracted in six of the past seven years casts doubt on that promise. The combination of a weak economy, the political environment, and one the most severe pension underfundings of any municipality has led to recent underperformance. Looking forward, some strategists feel Puerto Rico paper could move even lower as more institutions move to reduce their exposure to these bonds in an environment where the "bid side" remains weak.

Most Markets Finish Out the Year in Positive Territory

Total Returns	1 Month	YTD
Dow Jones Industrial Average	3.19%	29.65%
S&P 500	2.53%	32.39%
NASDAQ Composite	2.94%	40.12%
S&P 100	2.32%	30.39%
S&P 400 MidCap	3.09%	33.50%
S&P 600 SmallCap	1.45%	41.31%
Russell 2000	1.97%	38.82%
MSCI EAFE	1.51%	23.29%
MSCI EAFE Small Cap	2.36%	29.69%
MSCI Emerging Markets	-1.44%	-2.27%

1 Month and YTD data as of: 12/31/2013

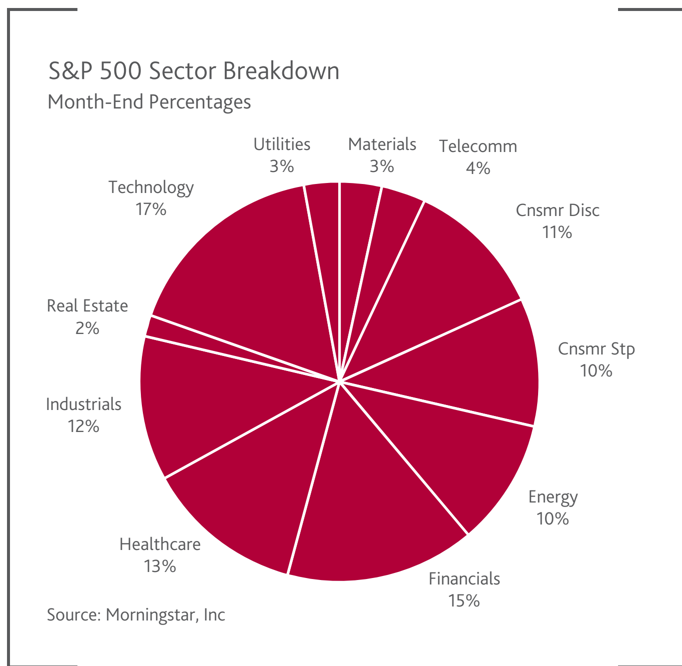
Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc.

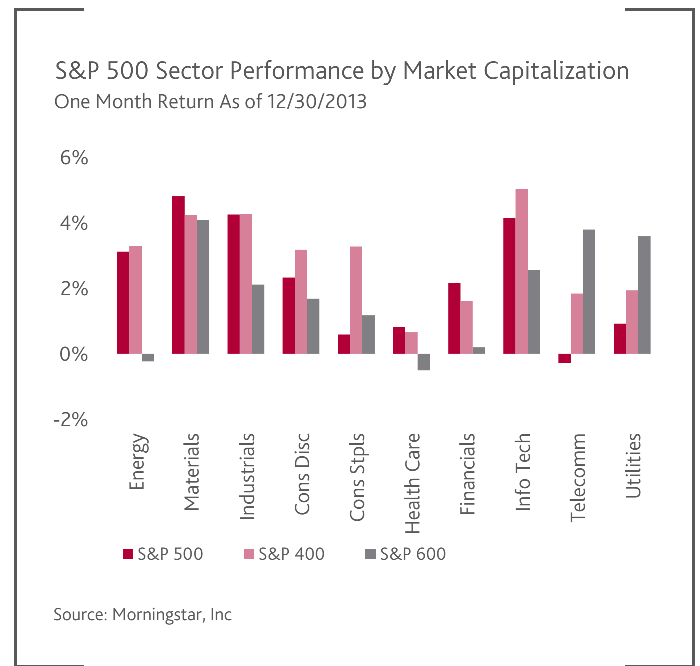
Overview

Stocks had a rocky start to December with two straight weeks of negative returns. Fears began to set in that the market had topped out and investors were cashing in their profits. However, the mid-month announcement by the Federal Reserve to begin tapering its monthly bond purchases buoyed markets the final two weeks of the month. Positive economic data regarding third quarter GDP, inflation, new home sales, durable goods and retail sales also led investors to continue to load up on stocks despite the strong returns through November.

The total return in December for the Dow Jones Industrial Average was 3.2%, the highest of the three major U.S indices, as it closed out the month and the year at 16,576.66.The broad based S&P 500 Index climbed 2.5% to 1848.36.The NASDAQ Composite's return was 2.9%, finishing at 4,176.59 for its highest finish since September 2000. Fourth quarter returns were 10.5%, 10.2% and 11.1% for the Dow, S&P 500 and NASDAQ. For the full year 2013, the indices returned 29.7%, 32.4% and 40.1%, respectively.

U.S. companies continued to reward their shareholders with dividend and stock buyback increases this past year. S&P Dow Jones Indices reported U.S. common stock dividend net increases (increases less decreases) rose $12.7 billion during the fourth quarter of 2013 compared to an $8.4 billion increase in the fourth quarter of 2012. However, the weighted dividend yield declined to 2.44% from 2.66% a year ago as the stock market increased. Currently 418 companies in the S&P 500 pay a dividend. S&P also reported that share repurchases in the third quarter of 2013 increased 8% compared to the second quarter, and 20% excluding the historic Apple $16 billion announced in the summer.





Domestic Equity

The strongest S&P 500 Index sectors in December were Materials (+4.8%), Industrials (+4.2%), and Information Technology (+4.2%). Within Materials, Dow Chemical climbed 14.5% while Alcoa and USX were both up over 10%. Outperformers in the Industrials sector included Flowserve (+10.6%), while Pentair, Parker Hannifin and Deere each were up over 9%. December's worst performing sectors included Telecomm Services (-0.3%), Consumer Staples (+0.6%) and Health Care (0.8%). For the full year, Consumer Discretionary (+43.1), Health Care (+41.5%), Industrials (+40.7%) and Financials (+35.6%) had the highest returns of all the S&P sectors. Laggards in 2013 included Telecomm Services (+11.5%), Utilities (+13.2%) and Materials (+25.6%).

According to Standard & Poor's, mid cap equities outperformed both large cap and small cap equities in December. The S&P MidCap 400 had a return of 3.1%, better than the S&P 500 Index return of 2.7% and significantly better than the return Small Cap 600 Index of only 1.5%. For the full year 2013, small cap equities (+41.3%) continued to outperform both mid cap (+33.5%) and large cap (+32.3%). The small cap index has a higher concentration of the better performing sectors such as Consumer Discretionary and Industrials.

As for style performance, growth stocks outperformed value stocks within the large cap and mid cap areas last month, but value outperformed in small cap. Small cap growth stocks posted the strongest returns (+42.7%) for the full year 2013, while large cap value equities lagged (+32.0%). The former has a relatively low allocation to Consumer Staples, Telecom and Utilities while the latter holds a smaller percentage of Consumer Discretionary stocks.

International Equity

International equity indices were mixed in December. The MSCI EAFE Index of developed markets was positive, returning 1.5% in U.S. dollar terms. The country index in Germany (+2.8%) led all major developed markets, followed by the UK (+2.7%), France (+1.7%), and Japan (+0.8%). German investors cheered the formation of a coalition government after three months of political wrangling. For the full year 2013, the developed markets index posted a positive return of 23.3%. Returns were highest for the country indices in Finland (+48.0%), and Ireland (+41.7%). Of the major developed stock market indices, Germany (+32.4%) was the strongest, followed by France (+27.7%) and Japan (+27.4%). The UK (+20.8%) index lagged the benchmark all year.

The MSCI Index for Emerging Markets declined 1.4% in December, weak for the second month in a row after strong performance for several months that began in the summer. Of the BRIC countries, Brazil posted the worst return (-4.6%), followed by China (-3.4%); while India (+3.3%) and Russia (+1.6%) had positive returns in December. For the full year, the emerging markets index declined 2.3% after a 26% return in 2012, with total returns ranging from +52.7% for the country index in Greece to -29.8% for Peru. Brazil (-15.8%), India (-3.8%), Russia (+1.4%) and China (+4.0%) all significantly underperformed their developed market peers in 2013. Brazil's weakness resulted from political unrest, the global slowdown in demand for oil and commodities, rising inflation and interest rates.

Alternatives End the Year on a High Note.

Price Change	1 Month	YTD
Dow Jones UBS Commodity Index	1.18%	-8.65%
Oil	6.07%	6.90%
Copper	4.41%	-7.00%
Gold	-3.85%	-28.26%
Total Return		
NAREIT-All Equity REITs	0.58%	2.86%
NAREIT-Industrial/Office	0.71%	5.94%
NAREIT-Residential	1.22%	-5.36%
S&P Global Property Ex-US	-0.73%	4.35%
HFRI Fund Wtd Comp. Index	1.17%	9.33%
HFRI Equity Market Neutral	0.86%	7.12%
HFRI Merger Arbitrage	0.54%	4.80%
HFRI Short Bias	-1.08%	-16.36%

1 Month and YTD data as of: 12/31/2013

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

Overview

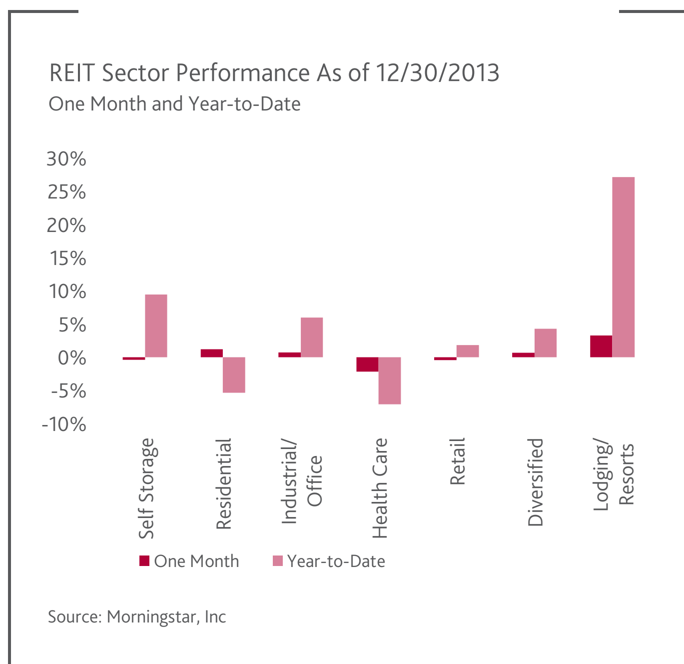
Commodities, hedge funds and REITs all closed out 2013 with positive performance in December. The DJ UBS Commodity Total Return Index returned 1.24% in the last month of the year, while the HFRI Fund Weighted Composite Index and the FTSE NAREIT All REITs Index added 1.17% and 0.84%, respectively.

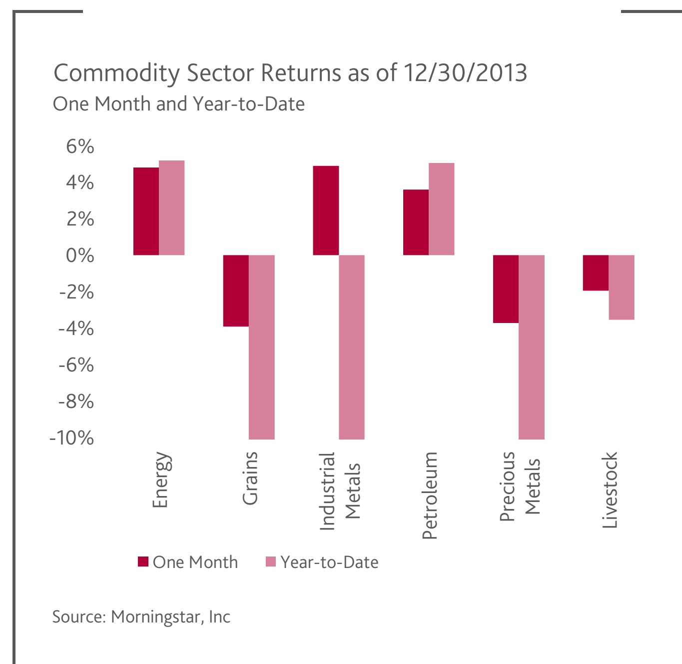
Commodities

The DJ UBS Commodity Total Return Index finished 2013 with a positive December return of 1.24%, marking the third positive return in the past nine months for the index. Crude oil and natural gas pushed the index up in December and showed positive returns for the year while precious metals and agricultural commodities fell dramatically.

Gold and silver prices fell harder in 2013 than they have in decades, finishing the year with dismal returns of -28.26% for gold and -35.92% for silver. Both metals lost more than 3% in December, a result likely attributable to the Fed's decision to taper its quantitative easing program in January, but this did not make a significant impact on precious metals prices.

A major reason for gold price weakness in 2013 was global physical demand for gold. China and India account for 46% of physical gold demand, giving these countries large influence over price fluctuations. India's demand fell 32% in 2013 because of import tax hikes and a weak currency, while China's demand grew by nearly 20% as the middle class continued to increase discretionary spending. From an investment standpoint gold demand fell drastically. Despite physical demand moves in emerging market economies somewhat offsetting each other, investment demand remains the primary factor in gold price fluctuations. Gold ETFs have seen a sharp drop in NAV and in physical gold bullion held as demand has contracted, which indicates that gold is a less desirable investment than it once was. In a theoretical sense this may continue to be the case as Treasury rates





rise in the U.S. and thus the opportunity cost of holding gold against risk-free investment in Treasury bonds falls.

Both Brent Crude and West Texas Intermediate notched gains of just under 7% in 2013 as the oil market continues a dynamic change in the U.S. from an import-heavy system to a trade-neutral or even future export market. A strong dollar muted some price appreciation in December but Brent still showed gains of 1.29% and WTI rose 6.07%. Demand in U.S. refineries jumped in December while stockpiles at the Cushing, Oklahoma plant fell, strengthening prices and expanding the supply/demand gap. Demand in U.S. refineries jumped in December while stockpiles at the Cushing, Oklahoma plant fell, strengthening prices and expanding the supply/demand gap.

Hedge Funds

Hedge funds ended the year on a positive note as the HFRI Fund Weighted Composite Index returned 1.17% in December, posting gains for the fourth consecutive month. Gains were seen pretty much across the board as a majority of the HFRI specific indices were in the black for the final month of 2013, led by the HFRI Equity Hedge Index, which was up 1.64% last month. The index gained nearly 15% for the year, the best annual performance since 2009. Mirroring trends in the broader market and benefitting from a strong IPO market, the strongest area within the Equity Hedge sub-strategy performance was from funds focused on Technology and Healthcare, with the HFRI EH: Technology/Healthcare Index gaining 2.6% in December and over 22% for the year, completing a fifth consecutive year of gains and nearly topping the 25.8% gain in 2009. Aggregate hedge fund returns gained more than 9% in 2013, the best annual return in the past three years, according to data from Hedge Fund Research (HFR) and eVestment. In separate reports, HFR reported that the HFRI Fund Weighted Composite index returned 9.3% for the year ended December 31, 2013, the best annual performance since the index returned 20% in 2010. Additionally, eVestment reported the average return of the hedge funds that report to its database, and in 2013, its Hedge Fund Aggregate average return was 9.2%.

REITs

Real estate investment trusts (REITs) posted positive returns to end 2013. The FTSE NAREIT All REITs Index was up 0.84% last month, ending 2013 up 3.21%. While posting annual gains is the name of the game, 2013 saw a major drop in performance within the industry, as the index was up 20.14% in 2012. The FTSE NAREIT All Equity REITs index ended December up 0.58%, gaining 2.86% on the year. Compared to the broader stock market, the S&P 500 was up a total return of 32.4% and 2013 represented the widest gap between the performance of real estate stocks and the broader market since 1998, when the S&P 500 returned 28.6% to investors while REITs produced a total return of -17%.

December was a positive month across a majority of the property sectors and subsectors as well. Industrial/Office REITs gained 0.75% in the final month of the year, ending 2013 up 5.97%. Residential REITs, composed of Apartments and Manufactured Homes, both of which have been struggling so far this year, posted returns of 1.22% in December. Last month's performance was not enough to escape the red though, as the sector ended the year down 5.36%. Lodging/Resorts REITs, which have been by far the best performer so far this year, ended last month up 3.29%. After posting returns of 12.53% in 2012, the sector ended 2013 up 27.18%. There were, however, some laggards to close the year. Retail REITs, made up of Shopping Centers and Regional Malls, lost 0.40% in December. Healthcare REITs, which have been one of the worst performing sectors on the year, lost 2.16% in the final month of the year, bringing losses to over 7% for 2013.

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