Despite fiscal cliff negotiations dragging on to the last minute, improving macroeconomic data in the U.S. and the continued global easing cycle provided support for equity markets globally in December. For the month, the Russell 1000, Russell 2000, MSCI EAFE and MSCI Emerging Markets Indices returned 1.04%, 3.56%, 3.21% and 4.90%, respectively. Value stocks outperformed growth stocks, and Financials, Materials and Industrials were the top-performing sectors for the month, while the Consumer Staples, Telecommunication Services and Health Care sectors lagged.

During the month, markets fluctuated with news from Washington, DC. The key issue of the month, for both the real economy and the financial markets, was the fiscal cliff. On the final trading day of the year, a small compromise appeared to be in the making with an agreement to raise income taxes for households making $450,000 or more per year, raise capital gains tax rates to 20% and limit itemized deductions for individuals making more than $250,000. Politics dominated the economic and financial discussion and will likely continue to do so, as the next round of debt ceiling discussions and spending cuts comes around.

The housing market continued to recover with home prices in the U.S. rising on an annual basis in 2012 for the first time since 2006. The labor market continued to improve as the unemployment rate dropped to 7.7%, the lowest in four years, while third-quarter GDP was revised up to 3.1% annualized growth.

The strong performance of international markets continued in December. These returns generally reflected an improving economic climate in emerging markets and a stabilization of European markets. These regions were also less affected by the fiscal cliff in the U.S. The fiscal drag and recession in the eurozone continued to be worse than anticipated as the European Central Bank (ECB) revised its 2013 GDP forecast from 0.5% expansion to 0.3% contraction, and Germany's central bank lowered its 2013 growth forecast from 1.6% to 0.4%.

Fixed income markets also performed well in 2012, with the Barclays Capital Aggregate Bond Index showing a return of 4.22% for the year and the Barclays Capital U.S. Corporate High Yield Index returning 15.81%. High-quality bonds lost some ground in December, with the Aggregate Bond Index declining 0.14%. Yields on Treasuries traded in a relatively narrow range throughout the year, reflecting the generally high degree of risk aversion in the markets.

We do not see substantial short to intermediate term risks across the equity landscape as they pertains to valuations, growth and profitability. We view mega cap US, dividend growers, international and emerging market equities as relatively attractive. Pairing our views on risk with stated central bank policies, we would expect spreads in the bond markets to remain tight in the near term and the absolute level of interest rates to remain range bound.

MARKET BAROMETERS

Stocks	Level	Δ Month (%)	Δ YTD (%)
S&P 500	1426	0.91	16.00
DJIA	13104	0.79	10.24
International	1604	3.20	17.32
Emerging Markets	1055	4.89	18.22
US Small Cap	849	3.56	16.35

Bonds	Yield	Δ Month (%)	Δ YTD (%)
Barclays Aggregate	1.74	-0.14	4.22
Municipal Bond	2.17	-1.24	6.78
High Yield	6.13	1.58	15.81
10 Yr UST	1.78	-1.08	5.12
2 Yr UST	0.25	0.04	0.40

Commodities	Level	Δ Month (%)	Δ YTD (%)
DJ UBS Commodity	439	-2.24	3.73
Oil	91.82	3.27	-7.09
Natural Gas	3.4	-2.27	14.88
Gold	1658	-3.97	8.26
Copper	3.64	0.32	6.11

Currencies	Level	Δ Month (%)	Δ YTD (%)
US (TWD)	79.77	-0.48	-0.51
Euro ($€)	1.32	1.62	1.92
Yen (¥$)	86.64	-4.95	-11.30
Pound ($£)	1.63	1.51	4.61

*Sources: Bloomberg. Barclays Capital. Merrill Lynch.