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## Quarterly Market Review: January - March 2012

The markets recorded their best quarterly performance in 14 years against sustained headwinds from Europe, higher gas prices and a fragile recovery. We continue to look forward to a period of recovery in the US and all eyes will be on the election in November. Please let your FineMark professional know if we can help in anyway.

### The Markets

As the U.S. economy continued its slow march toward recovery and Europe managed to fight off the threat of a Greek default on key bond payments, even higher gas prices couldn't stop equities from powering upward. The S&P 500 registered its best first-quarter performance since 1998, the Nasdaq managed to surpass its October 2007 high, and the Russell 2000 was only 15 points from accomplishing the same thing. Even the Global Dow managed to beat the Dow industrials, despite the Dow's gaining more in a single quarter than it did in all of 2011.

As investors grew increasingly comfortable with equities again, reduced demand for bonds sent yields back above 2%. Tensions with Iran pushed oil prices as high as \$108 per barrel, pushing both gas prices and inflation higher despite concerns about slowing economies abroad. Gold regained some of the ground lost last year but then gave back almost half of those gains to end at roughly \$1,670 an ounce. And after a strong move during 2011's final quarter, the dollar stabilized a bit.

Market/Index	2011 Close	As of 3/30	Quarterly Change	YTD Change
DJIA	12217.56	13212.04	8.14%	8.14%
NASDAQ	2605.15	3091.57	18.67%	18.67%
S&P 500	1257.60	1408.47	12.00%	12.00%
Russell 2000	740.92	830.30	12.06%	12.06%
Global Dow	1801.60	1998.88	10.95%	10.95%
Fed. Funds	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.89%	2.23%	34 bps	34 bps

### Quarterly Economic Perspective

- The U.S. economy continued to recover. The Bureau of Economic Analysis said gross domestic product for 2011's final quarter rose 3%; that's sharply higher than the previous quarter's 1.8% increase. However, China and Europe both showed signs that their economies might be faltering; China lowered its 2012 growth target to 7.5%, both the eurozone and the larger European Union saw a 0.3% contraction in their economies, and Germany and France reported weakness in their manufacturing sectors.
- Unemployment continued to fall, ending the quarter at 8.3%, its lowest level in three years. Meanwhile, the number of new jobs added to the economy exceeded 220,000 for three straight months.
- In the largest sovereign restructuring on record, 85% of Greek bondholders agreed to swap their holdings for bonds worth almost 54% less. The arrangement allowed Greece to impose the same terms on most of its remaining creditors, qualify for a second round of financial assistance, and make key bond payments. The restructuring meant that financial institutions had to pay off on roughly \$3 billion worth of credit default swaps on Greek debt.
- The leaders of all but two European Union countries signed a treaty designed to impose greater fiscal discipline in the EU, and European banks refinanced almost €530 billion with the European Central Bank to help maintain the financial system's stability.
- The Federal Reserve Open Market Committee said it plans to keep interest rates at "exceptionally low levels" through at least late 2014.
- Despite dips in sales of both new and existing homes in February, both continued to be higher than the previous year (up 11.4% and 8.8% respectively). However, that didn't translate into higher home prices; according to the S&P/Case-Shiller national index, home prices were at their lowest level since mid-2006. Housing starts also were down slightly in February, but both housing starts and building permits were up more than 34% from a year earlier.
- Spiking gas prices translated into higher consumer inflation; a 6% jump in gas prices in February alone helped boost the inflation rate for the last 12 months to 2.9%. Retail sales also were up 6.3% from the previous year, though gas prices accounted for part of that increase as well. Meanwhile, wholesale inflation was up 3.3% (the smallest yearly increase since August 2010).
- Fifteen large banks passed the Federal Reserve's stress tests designed to gauge their ability to withstand a financial crisis, but four others must resubmit plans that show they have sufficient capital.

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*The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indexes listed are unmanaged and are not available for direct investment.*