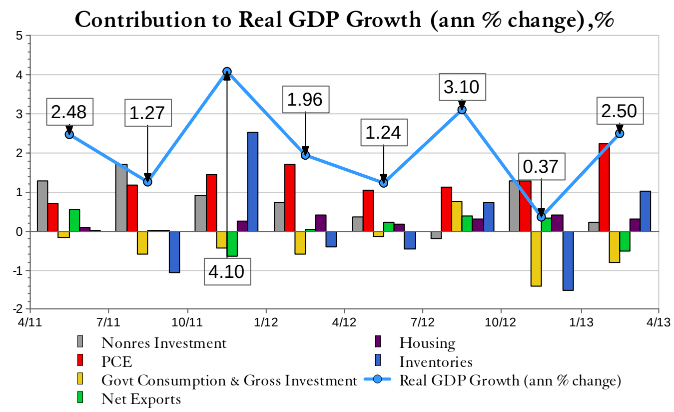
VANTAGE CONSULTING GROUP
3500 PACIFIC AVENUE VIRGINIA BEACH, VA 23451 (757) 491-1200 FAX (757) 422-5378

Market Review

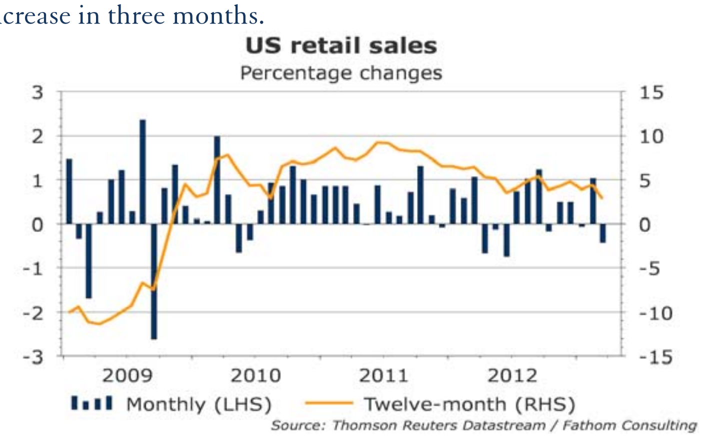
April 2013

Economic Review

U.S. real GDP missed expectations by the most since the third quarter of 2011 as the first quarter advance estimate came in at an annual rate of 2.5%, below the estimates of 3%. Fourth quarter growth was revised downward to 0.4%. Gains in personal consumption expenditure, inventories and housing were partially offset by government spending cuts at the federal, state and local levels and lower net exports.

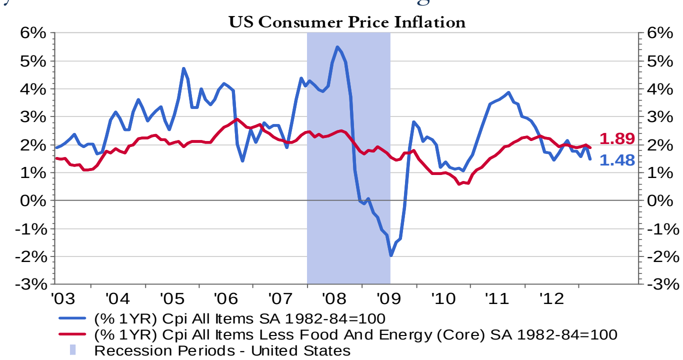


Economic data released in April increased concerns that the economy may have hit a soft patch. The University of Michigan's Consumer Sentiment Index fell to a nine-month low of 72.3 in March, significantly below the consensus estimate of 79.3 and February's 78.6. US retail sales fell unexpected by 0.4% in March, the largest decline since June 2012, mostly due to lower gas prices. Over the twelve months to March, sales rose just 2.8% in nominal terms, representing the slowest yearly growth in more than three years. Consumer spending rose 0.2%, the smallest increase in three months.

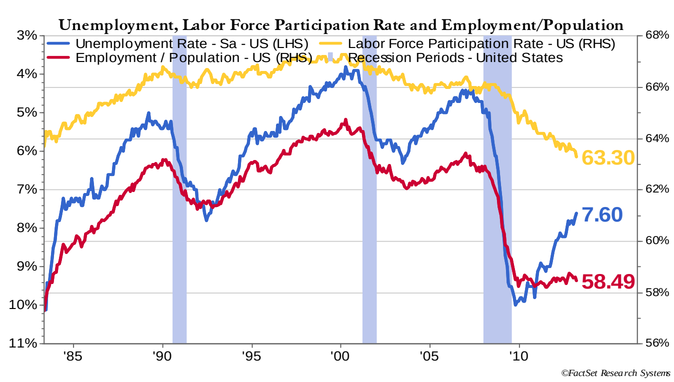


Housing data showed some improvement last month. Housing Starts increased 7% to 1,036,000 annual rate (a.r) and New Home sales were up 1.5% to 417,000 a.r. while existing home sales declined 0.6% to 4.92 million a.r. in March. The S&P/Case-Shiller 20 City Home Price Index increased 9.3% year over year, the most since May 2006. Robert Shiller, the co-creator of the index remains cautious and warns that the increase might be short-term as the Fed's $40 billion purchase of mortgage securities has created an "abnormal economy". He also noted that the biggest home price increases were happening in multifamily rather than single family homes, which reflects the growing shift from home ownership to renting.

The Consumer Price Index (CPI) was weaker than expected due to falling energy prices and declined 0.2% in March relative to expectations of unchanged prices after a 0.7% rise in February. The decline in March caused the year over year rate to fall to 1.5% from 2% in February. Core CPI (ex food and energy) rose 0.1% compared to expectations of a 0.2% rise. The year over year Core CPI remained benign with a reading of 1.9% compared to 2% in February. Five-year breakeven inflation was unchanged.

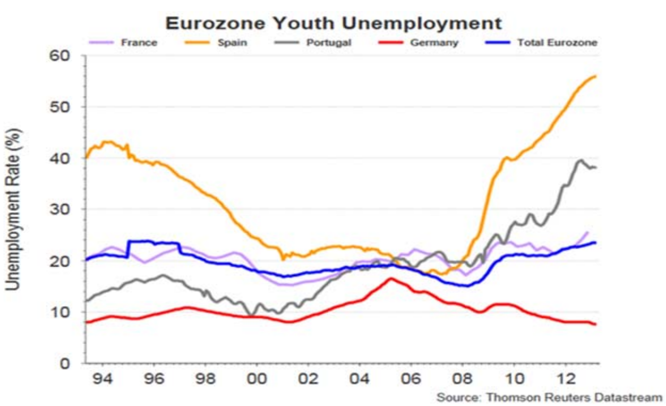


The Labor Department reported that Nonfarm payrolls increased by only 88,000 jobs in March, well below the 195,000 consensus. However, the unemployment rate fell 0.1% to a four-year low of 7.6%. Much of this decline was due to workers leaving the labor force. The labor force participation rate declined to a three and half decade low of 63.3 in March, from 65.5 in February.



The minutes from the Federal Open Market Committee (FOMC) March 19-20 meeting were more hawkish and revealed disagreement among Board members about the timing of winding down the bond-purchasing program. Some members "thought that if the outlook for labor market conditions improved as anticipated, it would probably be appropriate to slow purchases later in the year and to stop them by year-end." However, it also noted that, "were the outlook to deteriorate, the pace of purchases could be increased."

After a 0.6% contraction in the fourth quarter of 2012, the recession in the Eurozone likely continued in the first quarter of 2013. Unemployment across the 17 European Union countries set a record-high for the second month in a row, up to 12.1% in March from 12% in February. The youth unemployment rate, calculated for those under 25, rose to 24%. Italy and Portugal each reported youth unemployment over 38%, and Spain reported 56% youth unemployment. The Eurozone Purchasing Managers' Index (PMI) for the manufacturing sector set a new low for 2013 at 46.5 in April. Readings below 50 indicate economic contraction. Slovenia had its sovereign debt downgraded by Moody's to Ba1 with a negative outlook, reflecting increasing pressure on the euro-area periphery since the bailout of Cyprus last month.



The HSBC PMI for China unexpectedly fell to 50.6 from a revised 11 month high of 50.9 last month. Chinese exports continue to weaken due to sluggish growth in the United States and recession in Europe. In addition, indebted local governments are struggling to maintain the pace of expansion in the individual provinces. In order to stabilize domestic demand, the Chinese government has said it will push more spending on infrastructure projects. From the monetary policy perspective, the Chinese central bank is expected to keep interest rates steady through 2013.

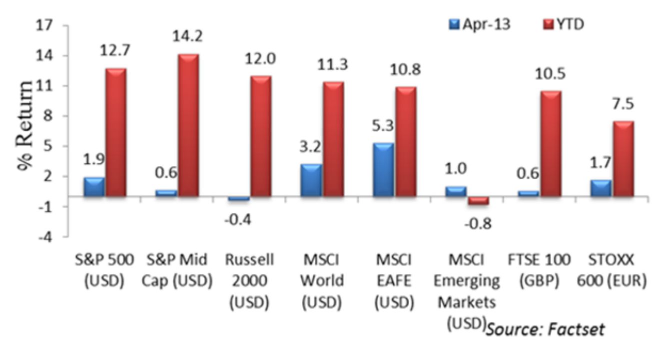
In Japan, several early signs of economic improvement are providing hope that the aggressive accommodative policies, dubbed "Abenomics" in recognition of Japanese Prime Minister Shinzo Abe, are beginning to boost the economy. Household spending increased 5.2% in March, well above the 1.8% estimated gain, which was the largest monthly increase since February 2004. The unemployment rate in Japan fell to a four-year low of 4.1%, and industrial production rose modestly in March as positive domestic increases were partially offset by weakening export demand from the U.S. and Europe. In early April, the board of the Bank of Japan voted unanimously to approve a $1.4 trillion stimulus program.

Equity Markets

April was a strong but volatile month for equities, as the markets overcame mid-month headwinds to post positive returns in every category except U.S. Small Cap stocks. After starting April up 1.6%, weak corporate earnings announcements caused the S&P 500 Index to drawdown 3.26% from April 11 through April 18. From that point, the index rallied 3.63% on positive earnings announcements from market bellwethers to finish the month up 1.9%. Market volatility, as measured by the VIX, was choppy in April, as over 50% separated the month's high and low volatility readings.

International equity markets also posted strong gains in April, as the MSCI EAFE Index rose 5.3% on the month. The MSCI Emerging Markets Index gained 1% in April, though the Index remains down in 2013. The FTSE 100, the main benchmark for British stocks, posted a modest 0.6% gain in April, extending YTD gains to 10.5%. Eurozone stocks, measured by the Stoxx 600 Index, advanced 1.7% in April, though European stocks continue to lag other major equity indices in 2013.

Equity Market Performance



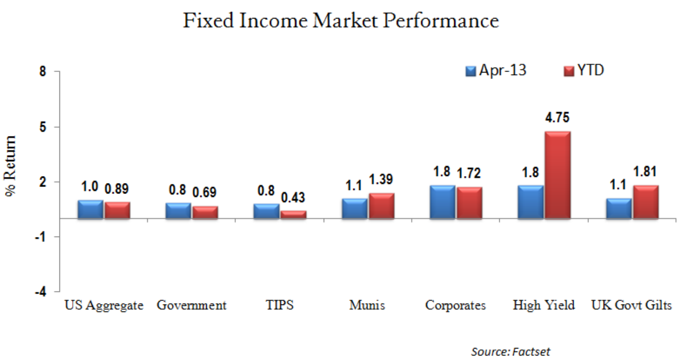
Bond Markets

Weaker than expected US economic data and global growth concerns drove Treasury yields down to their lows for 2013. The Barclays US Aggregate Index returned 1.01% in April, the best monthly return since July of last year, pushing the year to date return into positive territory. Investment grade and high yield corporates continued to perform well as new debt issuance received strong investor demand. High yield corporate spreads hovered around its historical low levels.

VANTAGE CONSULTING GROUP
3500 PACIFIC AVENUE VIRGINIA BEACH, VA 23451 (757) 491-1200 FAX (757) 422-5378

Treasury yields fell to their lowest levels for the year during early April on weaker than expected labor data and drifted lower for the rest of the month reaching new lows for the year on weak retail sales in the U.S., slower growth in the Chinese manufacturing sector and contraction of private sector in the Eurozone.

The US 10-year Treasury yield decreased nearly 18 bps in April to close at 1.677%. The 30-year Treasury yield decreased 22 bps to close at 2.876%. The 30/2 yield curve flattened 19 bps. The German 10-year benchmark bond yield declined 6.6 bps to close April at record low of 1.215%. The yield on UK 10-year benchmark bonds fell 8 bps to close at 1.686%.



Commodities

The S&P GSCI Total Return Index, a gauge of 24 leading raw materials, lost 4.7% in April as falling energy prices, global production concerns, and a bear market in precious metals dragged the index lower. The loss in April erased YTD gains in the index, and the correlation between equities and commodities has continued to break down leading to increased concerns about the staying power of the global recovery. The Agricultural sub-index was the only positive of the GSCI sub-indices in April, as unseasonably cold weather drove concerns about crop conditions.

Silver posted the biggest loss of any individual commodity, down 14.8% in April. Silver is down 20% in 2013, extending the bear market losses to 50% since the peak of $48.60/oz. in April 2011. Gold officially entered a bear market (20% decline from recent high) in April, finishing the month down 23% since its peak of $1907/oz. in September 2011. Energy and Industrial Metals fell after evidence of continued slowing in the Chinese economy. Most notably, Crude Oil fell 4.2%, Copper lost 6.6%, and Nickel declined 7.8%.

Agricultural commodities were the biggest winners in April, as Cocoa posted an 8.3% gain despite record low demand. Kansas Wheat advanced over 7.5% as unusual cold weather is delaying the spring planting and causing concern about

the harvest. Natural Gas was the only energy commodity to post a gain, finishing April up 6.9%. Natural Gas is up 24% YTD and 40.8% over the last 12 months. The unseasonably cold weather is driving demand for Natural Gas in the short term, while slowing production is boosting longer-term futures prices.

Currency

The US Dollar Index, which tracks the currency against six major U.S. trading partners, fell about 1.5% in April to close at 81.746. The decline in April pared the yearly gains to about 2.5%. The Euro rallied 2.67% against the US Dollar and closed April at 1.3184. The British Pound appreciated 2.5% against the Dollar, the strongest level in more than two months. The Yen continued its slide against the US Dollar, losing 3.48% in April as the Bank of Japan committed to achieving a 2% inflation target in two years. The Yen has declined over 11% against the US Dollar since the beginning of the year.