VANTAGE CONSULTING GROUP
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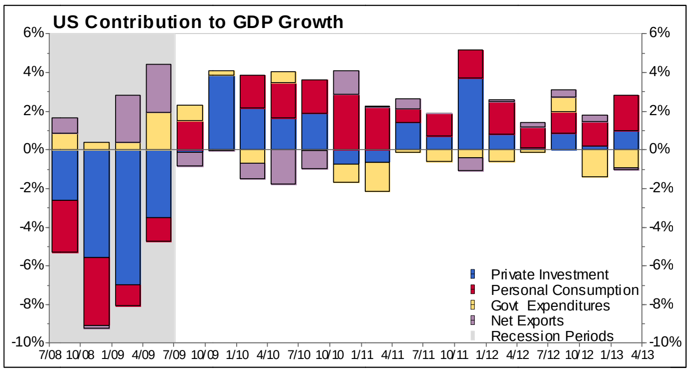
Market Review

June 2013

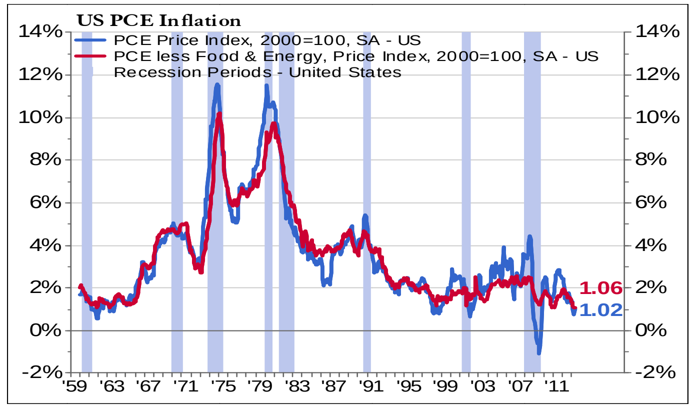
Economic Review

Economic reports released in June were somewhat better than expected, though GDP growth was a notable disappointment. On the positive side, the labor market showed modest improvement and retail sales, consumer confidence, and housing market data posted better than expected results. Industrial production data showed modest expansion after a surprising contraction in May. The final revision to first quarter GDP, however, was revised lower to 1.8% growth from 2.4%. Wall Street estimates for second quarter GDP remain in the 1.0% to 2.0% range.

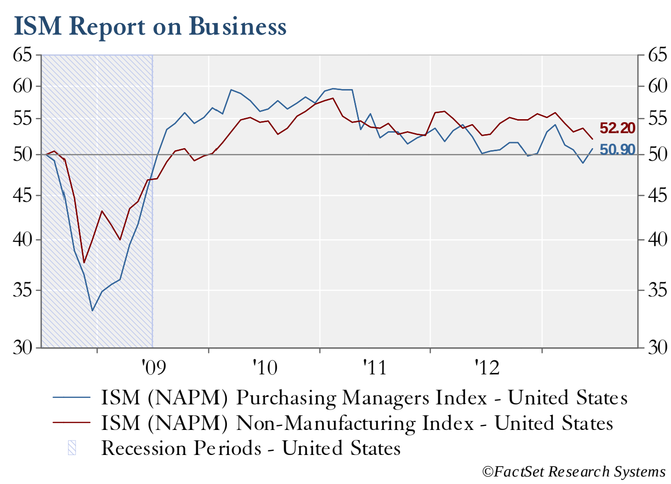


The U.S. jobs market continued to show mixed signals last month. The unemployment rate ticked up to 7.6% in May, up slightly from 7.5% in April. The number of Americans seeking unemployment benefits, a proxy for layoffs, declined modestly. In addition, hiring has continued on a steady pace, with employers adding 175,000 jobs in May. Though the labor-force participation rate remained unchanged, the number of disgruntled and marginally attached workers fell slightly.

Last month, the economic data continued to reflect a lack of inflationary pressure. U.S. inflation, as measured by the Personal Consumption Expenditures (PCE), rose 1% y/y in May and 0.1% on monthly basis. Core PCE (PCE ex food and energy), the Fed's preferred indicator for gauging inflation, came in at 1.06% in an annual basis. This is a slight increase from last month's 1.05%, the lowest Core PCE ever recorded in its six-decade history. The monthly Consumer Price Index (CPI) rose 0.1%, which was slightly less than expected. The 5-year breakeven inflation rate declined 26 bps to 2.23%. Year-over-year CPI rose 1.4%, and the Core CPI, which also does not measure food and energy costs, increased 1.7% year-over-year.



The U.S. manufacturing sector expanded in June after an unexpected one-month contraction in May. The Institute for Supply Management's (ISM) manufacturing index rose to 50.9 from 49 in May, which had been a four-year low, and slightly beat the 50.6 analyst projection. The ISM New Orders sub-index signaled future growth, jumping to 51.9 from 48.8 in May. The ISM Production sub-index delivered the most month-over-month increase in June, rising from 48.6 to 53.4. The Employment sub-index was the most disappointing with a reading signaling contraction at 48.7 from 50.1 the previous month. Payrolls at manufacturers declined for three straight months through May.

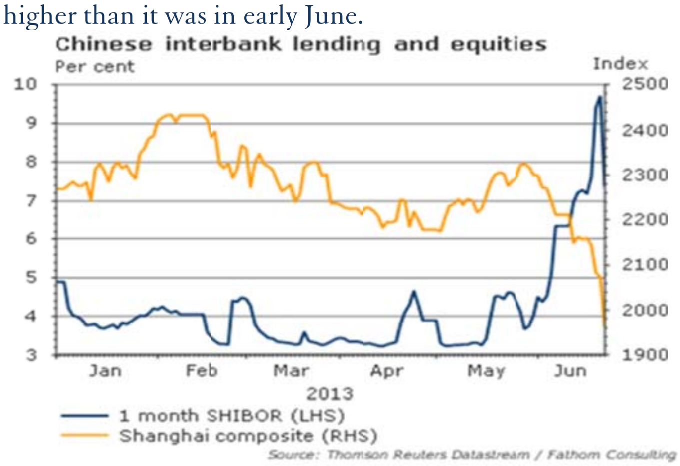


The headlines in June were dominated by commentary and speculation related to the Federal Reserve tapering its Quantitative Easing program. The Federal Open Market Committee (FOMC) left monetary policy unchanged during its June meeting, but comments from Chairman Ben Bernanke signaled a willingness to reduce bond purchases as early as this coming quarter, if economic conditions continue to improve. Chairman Bernanke indicated that bond purchases could end altogether by mid-2014 "if the incoming data are broadly consistent with…continuing gains in labor markets, supported by moderate growth that picks up over the next several quarters."

Across the pond, the European Central Bank left its policy rate unchanged at 0.5% and raised GDP forecast to +1.1% for 2014 (from +1% in March). ECB President Draghi repeated that accommodative policy will remain as long as necessary, bolstering sentiment. Economic data in the UK were marginally better than expected but unemployment still hovered at 7.8%. The Bank of England also kept policy steady at Governor Mervin King's last meeting. The BoE minutes revealed that the nine-member policy committee voted six-three to leave asset purchases unchanged at £375 billion. Elsewhere in Europe, MSCI dropped Greece to an emerging market from a developed market.

The Australian first quarter real GDP registered a disappointing 2.5% y/y growth rate. The Reserve Bank of Australia stayed on the sidelines, but kept the door open to increased easing. Japanese first quarter real GDP was revised higher to a +4.1% annual rate. The BOJ left policies unchanged and lifted their economic assessment.

Emerging markets suffered in June as protests turned violent in Turkey, Egypt and Brazil and as China suffered a cash squeeze. May data from China indicated slowing growth causing economists to lower China's growth prospect. The HSBC China manufacturing PMI slipped to 49.2, the lowest level since October 2012 and down from April's reading of 50.4. Chinese banks suffered a liquidity crunch in June after the Chinese Central bank allowed interbank lending rates to shoot to record highs to curtail risky loans made by the banks. On June 20th, Shibor rate spiked 30%. Ultimately, the People's Bank of China intervened and provided liquidity to certain banks. The move helped bring down the Shibor rate but it was still higher than it was in early June.

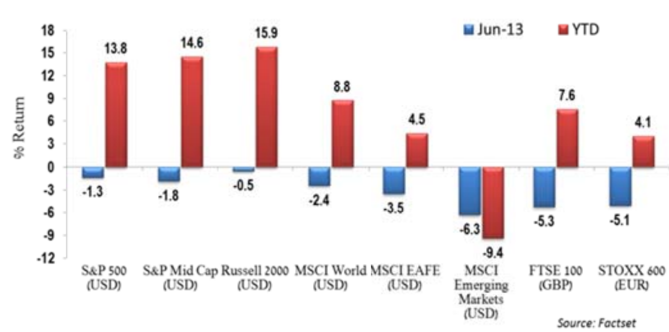


Equity Markets

Equity markets posted across–the-board losses in June, the first month of losses of U.S. stocks thus far this year. The S&P 500 finished June down 1.3%, though the Index rallied in the last week of the month to finish, well off the intra-month low. International stocks fared worse in June, as the MSCI World Index fell 2.4% and the EAFE (Europe, Australasia, Far East) Index fell 3.5%. Emerging Markets continued to struggle. The MSCI Emerging Markets Index lost 6.3% and is now down 9.4% in 2013. The FTSE 100 and STOXX 600 indices, the main benchmarks for British and Eurozone stocks, respectively, each lost over 5% in June continuing to lag U.S. stock indices this year.

Stocks, like many other asset classes, have been highly reactive to signals about Federal Reserve policymaking. After a relatively flat start to the month, the market sold off approximately 5% from June 18-24. The main driver of this sell off was the announcement from the FOMC and Chairman Ben Bernanke that the Fed is prepared to taper bond purchases and end Quantitative Easing by mid-2014 - if the economy continues to improve. Later in the month, speeches by FOMC members aimed at calming the markets, combined with the disappointing first quarter GDP revision, led stocks higher, as the S&P 500 rallied over 2% from the June 24 lows.

Equity Market Performance



Bond Markets

U.S. Treasury yields continued to move higher for the second straight month as market participants, focused on the Federal Reserve's plans for tapering its monthly QE purchases, interpreted the Fed Chairman's comments as hawkish. The intermediate portion (5-10 years) of the yield curve was the hardest hit, rising more than 50 bps before closing the month up 40 basis points. The interest rate volatility caused credit spreads, which had reached their tightest levels in the prior month, to widen meaningfully.

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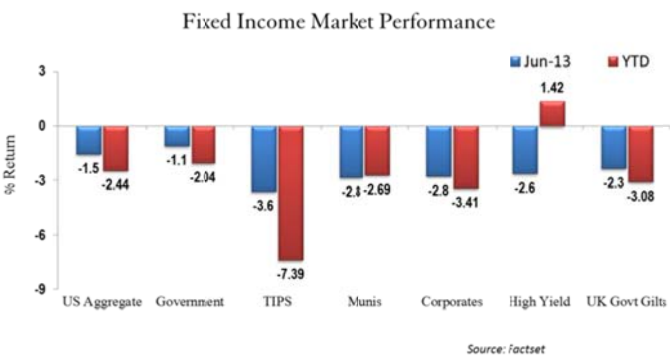
Yields on the 10-year and 30-year U.S. Treasury bonds increased 32 and 20 bps to close at 2.48% and 3.5% respectively. The 30/2 yield curve steepened 17 bps. The German 10-year benchmark bond yield climbed 23 bps to close May at 1.731%. The yield on UK 10-year benchmark bonds increased 44 bps to close at 2.44 %.



Commodities

The S&P GSCI Total Return Index, a gauge of 24 leading raw materials, gained 0.2% in June, as rebounding energy prices and a rally in livestock offset losses in industrial metals and a continued bear market in the precious metals. The headline commodity index has lost 5.4% in 2013, as global inflation pressures remain tame. The Livestock sub-index posted the largest advance, gaining 3.1% in June. The Industrial Metals sub-index lost 7.4% in June, extending year-to-date losses to 16.3%. The Precious Metals sub-index was the worst performer in June, losing 12.2%, and is down over 28% in 2013.

Cotton posted the largest gain for any individual commodity, up 7.8% for the month, as expectations of hot weather across the U.S. prompted concern over growing conditions. Crude Oil followed the U.S. Dollar higher, gaining 4.7% in June on speculation that a continued recovery in the U.S. will bolster fuel consumption, as well as a seasonal decline in inventories. The Lean Hog futures market has enjoyed its longest rally since 1990 and is up 5.7% in June. The rally has been sustained on increased speculation fueled by the acquisition of Smithfield Foods (NYSE:SFD) by a Chinese conglomerate.

Gold and Silver each lost over 12% in June, as speculation for a reduction in the Federal Reserve's bond-buying led the precious metals lower. Industrial Metals, such as Aluminum, Nickel, Copper, and Lead also fell sharply, each losing over 7% in June.

Currency

The US Dollar Index decreased about 30 bps in June to close at 85.839. The index is up 4.22% for the year. The Japanese Yen reversed its eighth straight month of losses against the USD, to appreciate 1.65% during June. The Yen closed at 99.33 after falling to 103.74 in May, its lowest level in four and half years. The Indian Rupee depreciated 4.95% to 59.43 per USD, as sustained demand from importers, mainly oil refineries, following the sharp rise in global crude oil prices weighted on the Rupee. The Euro appreciated 0.3% against the US Dollar to close at 1.29985 Euros/USD. The British Pound was nearly flat against the Dollar, to close at 1.5167 GBP/USD.