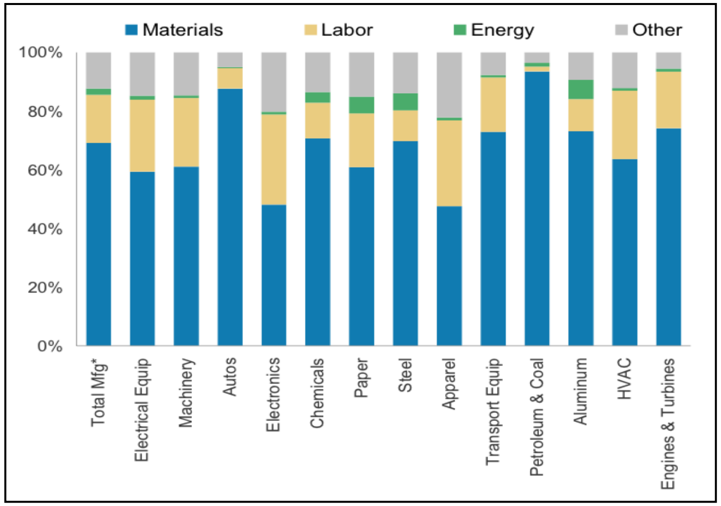
Market Recap

First Quarter S&P 500 Year-over-Year Revenue and Earnings Growth

Source: Thomson Reuters; WSJ

As companies continue to report their earnings for the first quarter of 2013, one ongoing concern that has persisted has been the slowdown in sales growth. Companies have missed revenue forecasts, citing a combination of Europe's malaise, a stronger dollar, and sluggish consumer spending. With more than half the companies in the S&P 500 stock index already reporting, first-quarter revenue for the group has fallen 0.3% from a year earlier. That would run counter to the sales improvement reported at the end of last year and would mark the third quarter out of the past four in which revenues grew by 1% or less. The sales figures are a troubling sign that business and consumer demand remain weak nearly four years after the recession. They are also evidence that a soft patch is developing in the U.S. economy, as optimism earlier in the year gives way to more sobering data on growth in gross domestic product, retail sales, and manufacturing.

Components of U.S. Manufacturing Costs



Source: U.S. Consensus Bureau

Falling U.S. energy costs and rising overseas labor costs were to lead to an "American Manufacturing Renaissance." The theory posits that manufacturers are encouraged to bring production back to the U.S. The reality is that energy and labor are relatively small components of manufacturing costs. Labor accounts for only 16% of total manufacturing costs in the U.S. Energy is an even smaller component of manufacturing costs, accounting for only 2% of the cost of goods sold. Lower U.S. natural gas costs clearly have broad implications for the manufacturing industries in which natural gas and energy are a significant component of cost. This is certainly the case for select industries such as Chemicals, Paper, and Aluminum. Overall, raw materials and components are clearly the biggest drivers of input costs.

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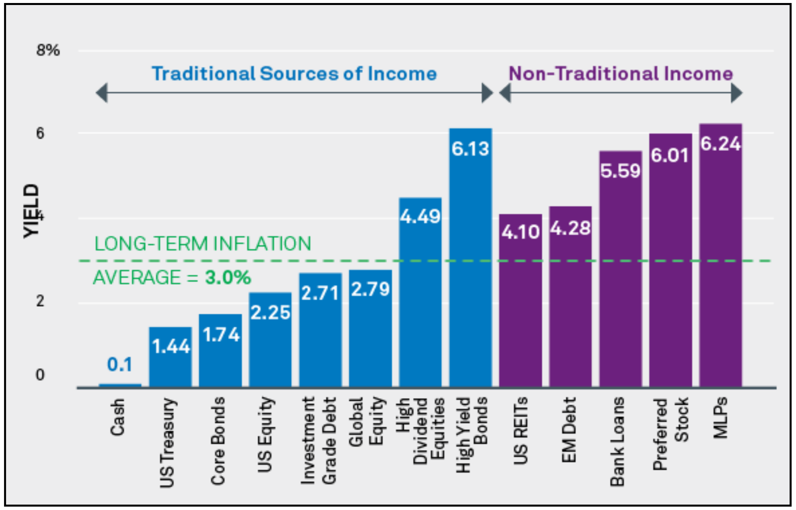
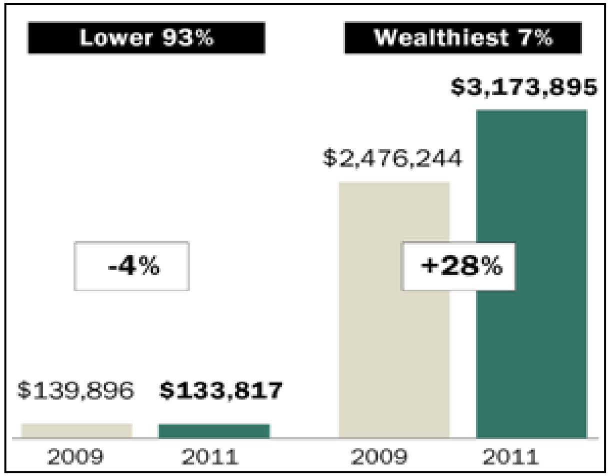
Income from Investments



Source: MSCI; Standard & Poor's

Change in Household Net Worth (2009-2011)



Source: Pew Research Center

With asset classes across the board generating their lowest historical yields, income investors are faced with a significant challenge. They must decide whether to maintain the course and lose pace with inflation or invest in riskier asset classes to increase yield. Overall, yields have come down across asset classes, but they remain quite volatile. At current interest rate levels, the income returns that investors have enjoyed over the past decades will be difficult to replicate. Further, if interest rates begin to rise, fixed income investors may begin to experience losses in an asset class they have viewed as being a safe alternative to equities. In order to replace lost income, many traditional bond investors are turning to income-producing stocks and more exotic investments, such as Master Limited Partnerships (MLPs) and emerging market bonds. However, many of these investments carry risks that may not be fully understood by the general investing public.

During the first two years of the economic recovery, the mean net worth of U.S. households in the upper 7% of wealth distribution rose by 28% ($3,173,895 from $2,476,244), while the mean net worth of households in the lower 93% dropped by 4% ($133,817 from $139,896), according to a Pew Research Center report. The variance is attributed to the stock and bond market rallies during the period and the flat housing market. Affluent households typically have their assets concentrated in stocks and other financial holdings, while less affluent households typically have their wealth more heavily concentrated in the value of their home. The upper 7% (8 million of 119 million households) saw their aggregate share of the nation's overall household wealth grow to 63%, up from 56% in 2009. The mean of households in this more-affluent group is 24 times that of those in the less-affluent group. At the start of the recovery in 2009, that ratio had been less than 18-to-1.

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