



# Q2

Quarterly Market Review  
Second Quarter 2012

# Quarterly Market Review

Second Quarter 2012



This report features world capital market performance and a timeline of events for the last quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the performance of globally diversified portfolios.

## Overview:

Market Summary

Timeline of Events

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Global Diversification



# Market Summary

Second Quarter 2012 Index Returns



**Past performance is not a guarantee of future results. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Market segment (index representation) as follows: US Stock Market (Russell 3000 Index); International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays Capital US Aggregate Bond Index), and Global Bond Market (Barclays Capital Global Aggregate Bond Index [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995–2012, all rights reserved. MSCI data copyright MSCI 2012, all rights reserved. Barclays Capital data provided by Barclays Bank PLC. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).



# Timeline of Events: A Quarter in Review

Second Quarter 2012

US stocks finish at multi-year highs. The S&P 500 Index has its highest close since May 2008.

Facebook's long-awaited IPO valued the firm at over \$100 billion, yet in the weeks following the listing, it lost almost a quarter of its market value.

The Supreme Court ruled that many of the provisions of the healthcare law are constitutional, including the requirement that most Americans obtain insurance or pay a penalty "tax."



1,419  
04/02/2012

1,362  
06/29/2012

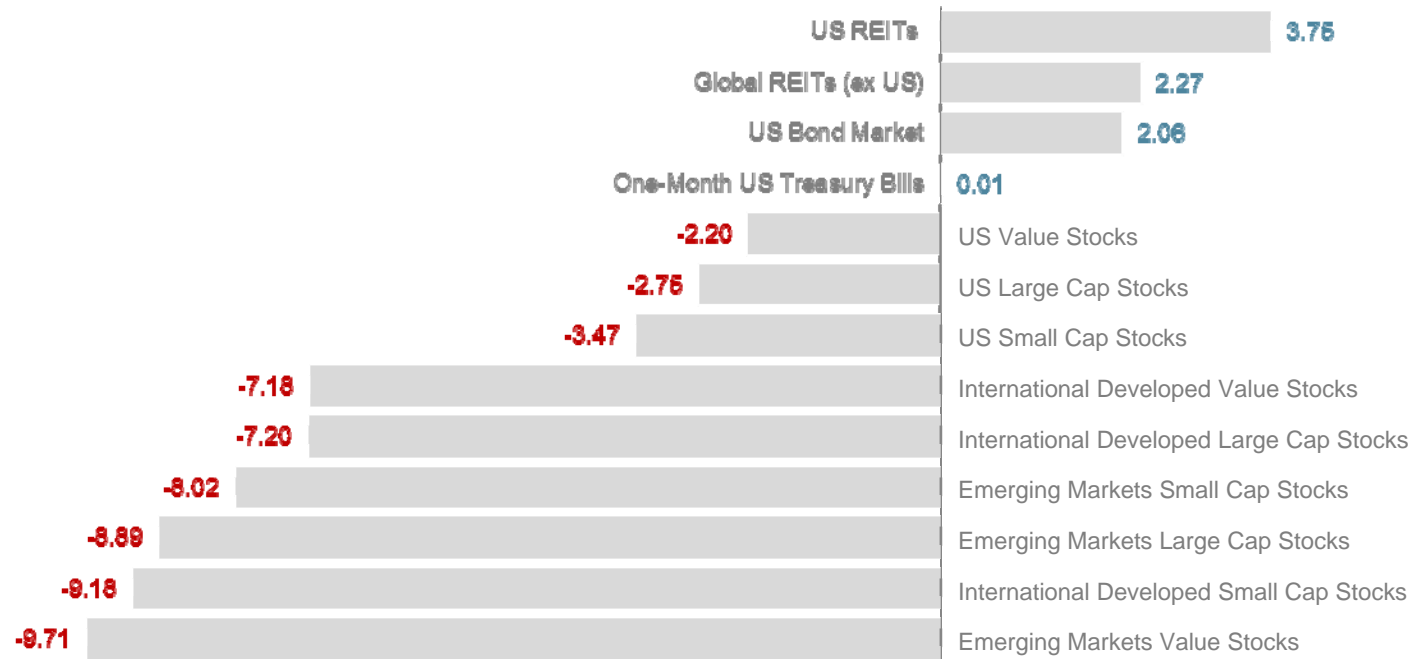
The graph illustrates the S&P 500 Index price changes over the quarter. The return of the price-only index is generally lower than the total return of the index that also includes the dividend returns. Source: The S&P data are provided by Standard & Poor's Index Services Group. The events highlighted are not intended to explain market movements.



# World Asset Classes

## Second Quarter 2012 Index Returns

Global equity markets retreated in the second quarter, giving up much of their gains for the year. Fiscal and economic strain in Europe continued to capture headlines, weighing especially heavy on non-US markets. Investors continued to turn to US government bonds for safety, pushing yields lower.



**Past performance is not a guarantee of future results. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Small Cap (Russell 2000 Index), US Value (Russell 1000 Value Index), US Real Estate (Dow Jones US Select REIT Index), Global Real Estate (S&P Global ex US REIT Index), International Developed Large, Small, and Value (MSCI World ex USA, ex USA Small, and ex USA Value Indexes [net div.]), Emerging Markets Large, Small, and Value (MSCI Emerging Markets, Emerging Markets Small, and Emerging Markets Value Indexes), US Bond Market (Barclays Capital US Aggregate Bond Index), and Treasury (One-Month US Treasury Bills). The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995–2012, all rights reserved. MSCI data copyright MSCI 2012, all rights reserved. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. Barclays Capital data provided by Barclays Bank PLC. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

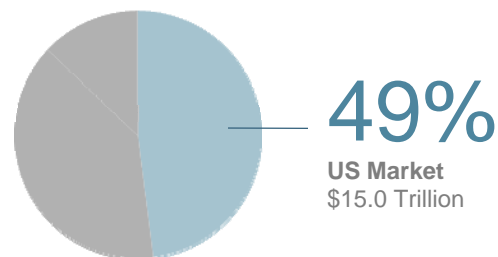
# US Stocks

## Second Quarter 2012 Index Returns

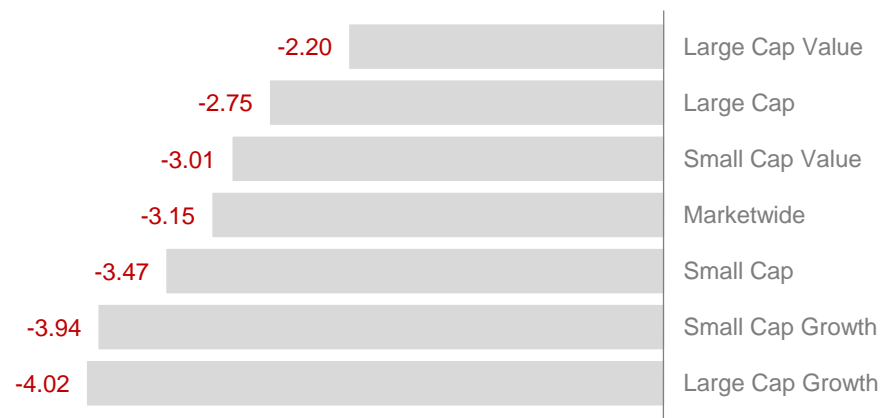
With all major asset classes logging negative quarterly performance, the US equity markets posted a -3.15% return for the quarter. Asset class returns ranged from -2.20% for large value stocks to -4.02% for large growth stocks.

Across the size and style spectrum, large outperformed small while value bested growth.

### World Market Capitalization—US



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	3.84	16.73	0.39	5.81
Large Cap	5.45	16.40	0.22	5.33
Large Cap Value	3.01	15.80	-2.19	5.27
Large Cap Growth	5.76	17.50	2.87	6.03
Small Cap	-2.08	17.80	0.54	7.00
Small Cap Value	-1.44	17.43	-1.05	6.50
Small Cap Growth	-2.71	18.09	1.99	7.39

\* Annualized

**Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (S&P 500 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap: Russell 3000 Index is used as the proxy for the US market. Russell data copyright © Russell Investment Group 1995–2012, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group.

# International Developed Stocks

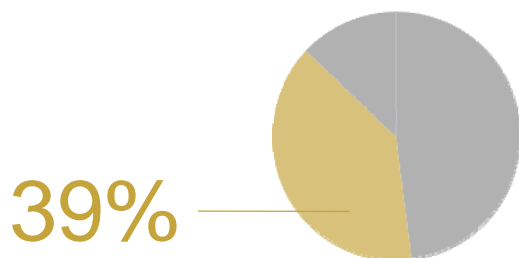
## Second Quarter 2012 Index Returns

Developed international markets (as measured by the MSCI World ex USA Index) were -7.20% in the quarter, marking the index's third worst quarter since March 2009. The US dollar appreciated against all major foreign currencies, which reduced returns on dollar-denominated foreign investments.

All developed countries posted negative returns in the quarter, with country dispersion ranging from -1.40% to -20.99% for Belgium and Finland, respectively.

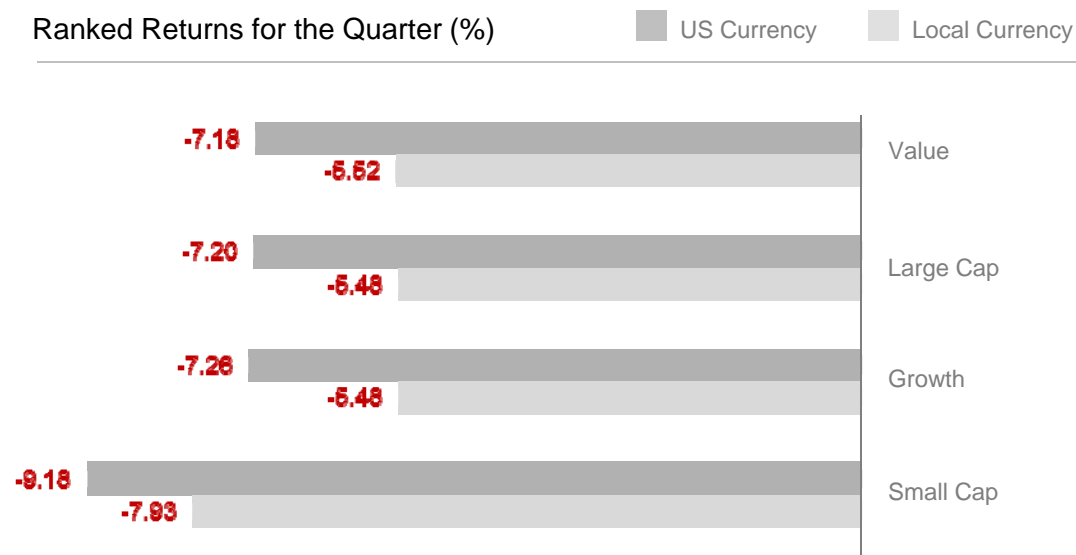
Across the size and style spectrum, large beat small with value slightly outperforming growth.

### World Market Capitalization—International Developed



International Developed Markets  
\$12.2 Trillion

### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-14.13	6.20	-5.67	5.57
Small Cap	-15.75	10.14	-4.94	8.70
Value	-14.93	5.04	-6.97	5.80
Growth	-13.36	7.30	-4.44	5.25

\* Annualized

**Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Market segment (index representation) as follows: Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth). All index returns are net of withholding tax on dividends. World Market Cap: Non-US developed market proxies are the respective developed country portions of the MSCI All Country World IMI ex USA Index. Proxies for the UK, Canada, and Australia are the relevant subsets of the developed market proxy. MSCI data copyright MSCI 2012, all rights reserved.

# Emerging Markets Stocks

## Second Quarter 2012 Index Returns

In US dollar terms, emerging markets logged a -8.89% return in their second-worst quarter since December 2008. The dollar appreciated against all the main emerging market currencies, negatively affecting dollar-denominated returns of emerging markets equities by 3.63%.

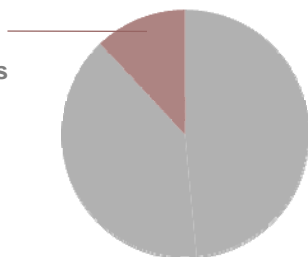
All country markets posted negative returns, with the exception of the Philippines and Turkey. The Philippines had the best return of the quarter at 4.71%, while Brazil fared the worst at -18.64%.

Performance of the size and style dimensions was mixed in the quarter, with small beating large and growth besting value.

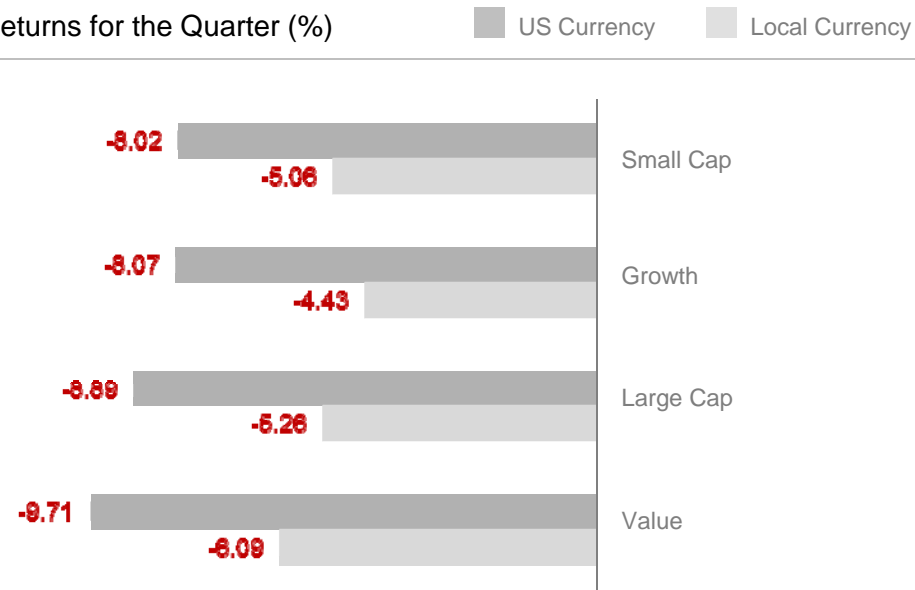
### World Market Capitalization—Emerging Markets

**12%**

Emerging Markets  
\$4.2 Trillion



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-15.95	9.77	-0.09	14.08
Small Cap	-18.90	11.13	-0.72	15.06
Value	-15.79	9.64	1.39	15.73
Growth	-16.11	9.90	-1.59	12.40

\* Annualized

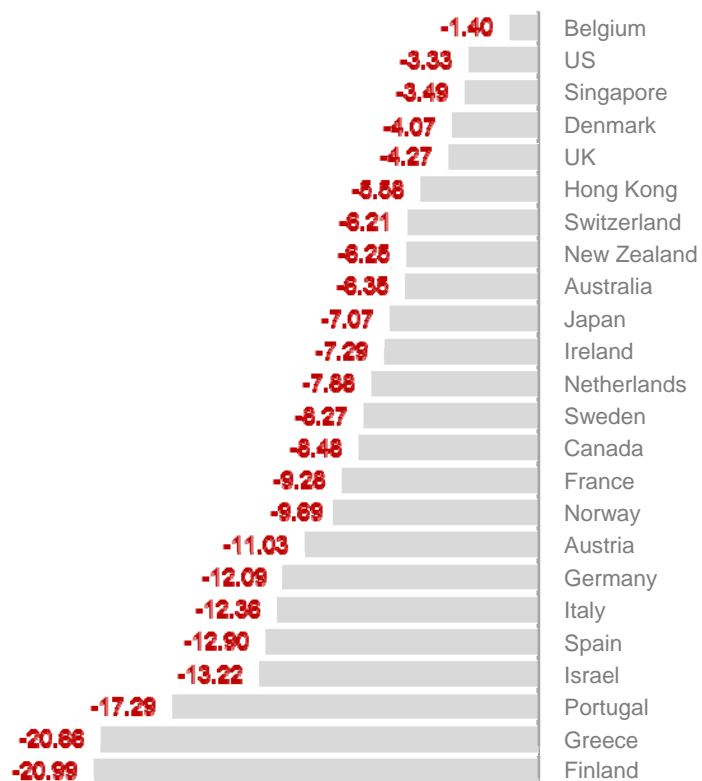


# Select Country Performance

## Second Quarter 2012 Index Returns

With equities under pressure as European debt concerns intensified, developed market countries were unable to avoid negative performance in the second quarter. Emerging markets faced a similar outcome with a few exceptions. On a year-to-date basis, many developed and emerging country returns were still flat to positive due to strong first quarter performance.

Developed Markets (% Returns)



Emerging Markets (% Returns)





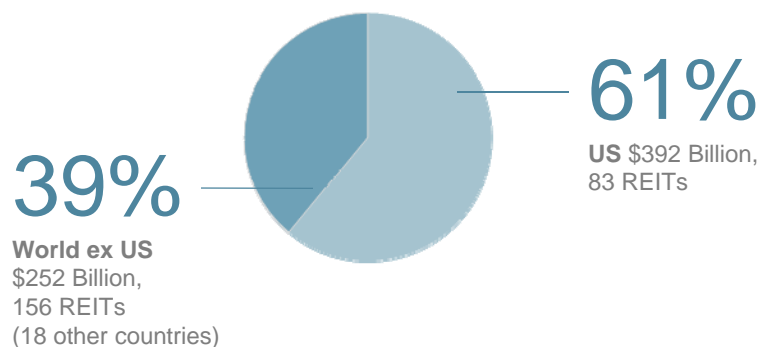
# Real Estate Investment Trusts (REITs)

## Second Quarter 2012 Index Returns

Real estate securities appreciated in the second quarter to outperform stocks and bonds. US REITs outpaced international REITs in the quarter, extending a five-year trend.

The dispersion between ten-year and five-year trailing returns was wide. REITs maintained strong annualized ten-year returns, while sharp declines in 2007 and 2008 continued to weigh heavily on five-year figures.

### Total Value of REIT Stocks



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
US REITs	13.29	33.52	1.97	10.27
Global REITs (ex US)	-4.72	16.68	-6.03	9.48

\* Annualized



# Commodities

## Second Quarter 2012 Index Returns

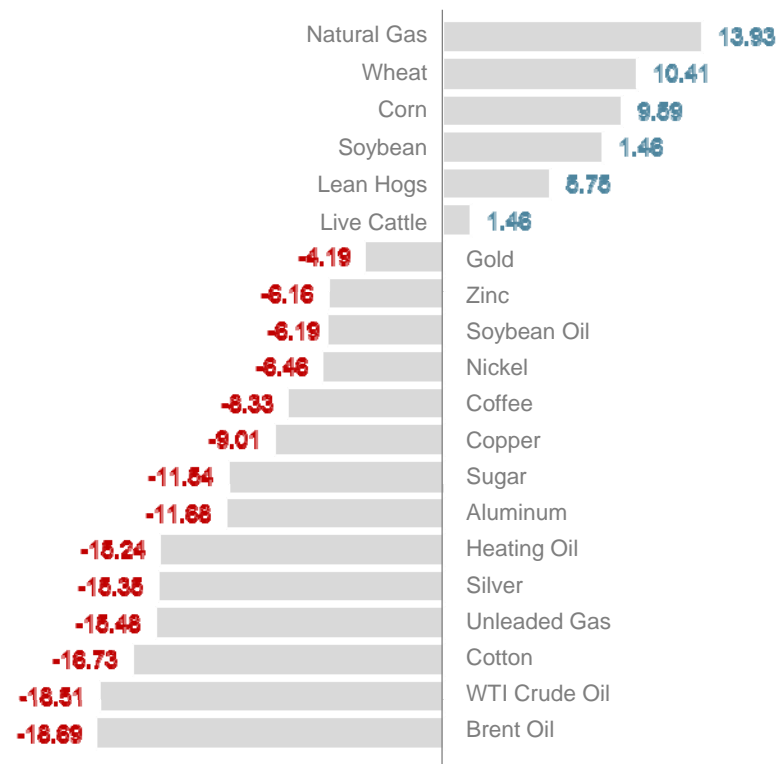
Commodities declined in the second quarter, extending a year-long drop in prices across a broad basket of individual raw goods. Leading the negative decline were petroleum-based commodities, with West Texas Intermediate (WTI) Crude and Brent Oil falling by 18.51% and 18.69%, respectively.

### Period Returns (%)

Asset Class	Q2	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-4.55	-14.32	3.49	-3.65	4.96

\* Annualized

### Individual Commodity (% Returns)





# Fixed Income

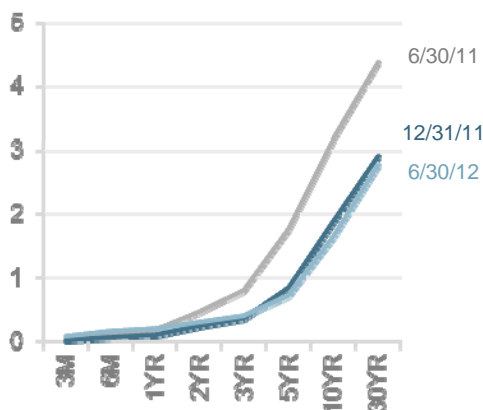
## Second Quarter 2012 Index Returns

Strong investor demand for high-quality bonds continued in the second quarter, driving yields lower and prices higher. US Long-Term Government bonds extended their strong performance streak with a gain of 9.52% for the quarter. The ten-year US Treasury note rallied in early June to hit an all-time low yield of 1.47%.

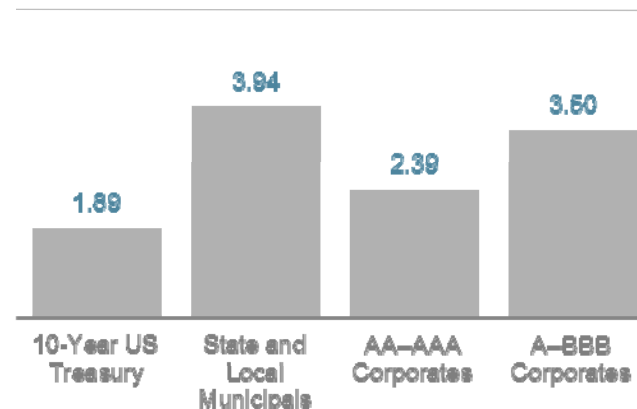
Investors' appetite for safety was so prevalent that many sovereign bond yields dipped into negative territory, indicating investors were willing to pay a steep price for the perceived safety.

US credit spreads increased through the quarter with most of the change (15 basis points) occurring during the third week of May as investors responded to news of a weakening economy and required extra yield to hold credit over government.

US Treasury Yield Curve



Bond Yields across Different Issuers



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
One-Month US Treasury Bills (SBBI)	0.03	0.07	0.81	1.73
Bank of America Merrill Lynch Three-Month T-Bills	0.05	0.12	0.98	1.87
Bank of America Merrill Lynch One-Year US Treasury Note	0.26	0.64	2.07	2.33
Citigroup World Government Bond 1-5 Years (hedged)	2.62	2.17	3.69	3.54
US Long-Term Government Bonds (SBBI)	29.48	13.24	11.92	8.94
Barclays Capital Corporate High Yield	7.27	16.29	8.45	10.16
Barclays Capital Municipal Bonds	9.90	7.62	5.95	5.28
Barclays Capital US TIPS Index	11.66	9.63	8.44	7.24

\* Annualized

**Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Barclays Capital data, formerly Lehman Brothers, provided by Barclays Bank PLC. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citigroup bond indices copyright 2012 by Citigroup. The Merrill Lynch Indices are used with permission; copyright 2012 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved.

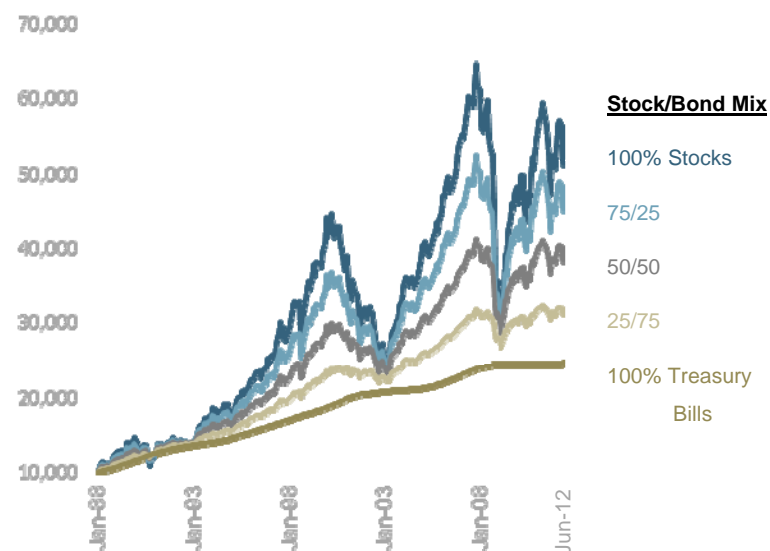


# Global Diversification

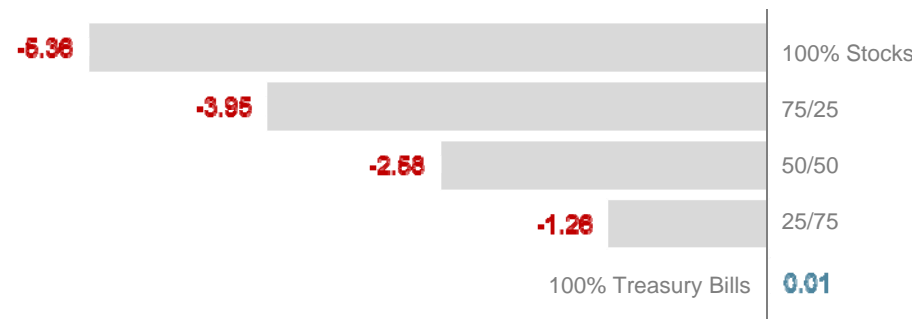
## Second Quarter 2012 Index Returns

These portfolios illustrate performance of different global stock-bond mixes and highlight the benefits of diversification. Those with larger allocations to stocks are considered riskier but also have higher expected returns over time.

### Growth of Wealth: The Relationship between Risk and Return



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	-5.96	11.36	-2.17	6.27
75/25	-4.10	8.76	-0.98	5.44
50/50	-2.48	6.00	-0.08	4.39
25/75	-1.10	3.10	0.51	3.15
100% Treasury Bills	0.01	0.03	0.07	0.81

\* Annualized

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance.

Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified portfolios rebalanced monthly. Data copyright MSCI 2012, all rights reserved. © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).