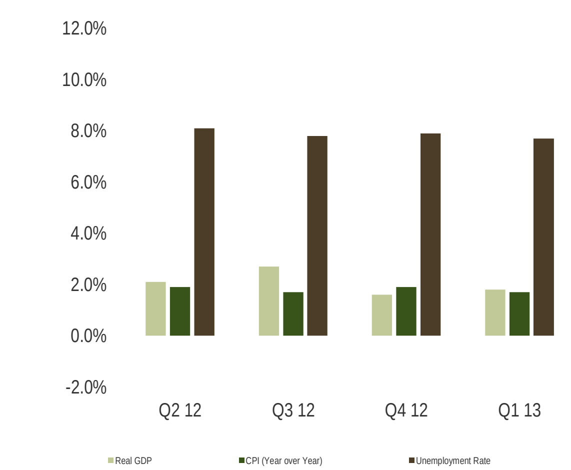
Economic Update

A peaceful sit-in that was an effort to prevent plans to demolish Gezi Park in central Istanbul has exploded into the largest protest movement Turkey has seen during Prime Minister Recep Tayyip Erdogan more than ten years in office. A heavy-handed response by police has escalated the small protest into outright riots across the country and reveals bigger issues about freedom of speech and a government that has become increasingly authoritarian. The Turkish economy grew by about 9% in both 2010 and 2011, but slowed to 2.2% last in part due to government measures to prevent the economy from overheating. The unrest in the country has rocked the nation’s stock market with the Borsa Istanbul National 100 Index falling as much as 17% during the week from its recent May 22 high.

Here at home, the ISM's manufacturing index fell to its lowest level since June 2009. The 49.0 reading for May indicates that manufacturing swung to contraction territory for the first time in six months. This conflicts with the less-widely-followed Markit PMI that ticked up for the month, suggesting manufacturing may not be that bad. The key divergence between the two was new orders which increased among Markit’s larger sample size but decreased in the ISM sample. The much larger service side of the U.S. economy remains firmly in expansion territory, rising six-tenths to 53.7. The new orders and business activity components both rose 1.5 points, but at 50.1 the employment component was essentially flat.

Employment numbers came in better than expected for the month of May. The U.S. economy added 175,000 payroll jobs against an analyst consensus of 167,000, although both March and April numbers were revised downward. Despite the positive May gain the unemployment rate edged back up to 7.6% from 7.5% due to an increase in the overall labor force. Professional and Business service sectors led the rise in payrolls while the goods-producing sectors were basically flat overall. Wages showed no change for the month after analysts expected a 0.2% increase. Although positive, this report could have further implications in the Fed’s decision of whether or not to begin reigning in the QE program as the unemployment rate actually climbed, albeit very slightly.

Economic Indicators, Quarterly Change



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

Jun 3rd	ISM Mfg. Index - Level, May	49.0
Jun 3rd	Construction Spending, April Monthly Chg.	0.4%
Jun 4th	ICSC-Goldman Same Store Sales, Wkly. Chg.	1.9%
Jun 4th	International Trade Balance Level, April	-40.3B
Jun 5th	MBA Purchase Applications Index, Wkly. Chg.	-11.5%
Jun 5th	Factory Orders, April Monthly Chg.	1.0%
Jun 5th	ISM Non-Mfg. Index, May	53.7
Jun 5th	EIA Petroleum Status Report, Wkly. Chg.	-6.3M Barrels
Jun 6th	Initial Jobless Claims (week ending 6/1)	346,000
Jun 6th	EIA Natural Gas Report, Wkly. Chg.	111 bcf
Jun 7th	Non-farm Payrolls, May Monthly Chg.	175,000
Jun 7th	Unemployment Rate, May	7.6%
Jun 7th	Consumer Credit, April Monthly Change	11.1B

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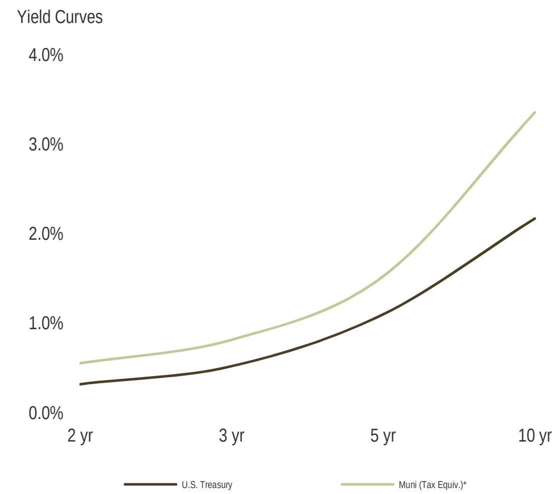
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

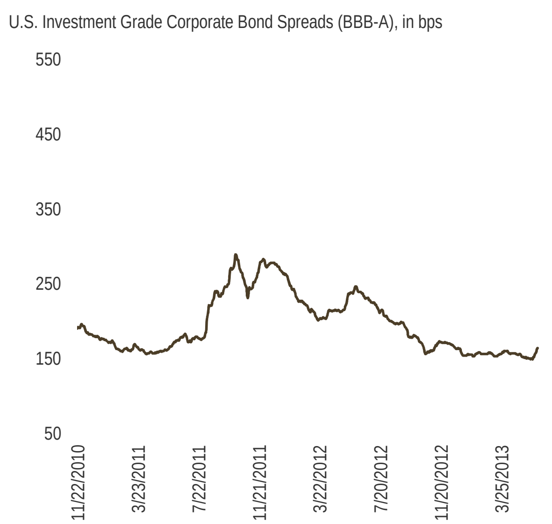
Although speculation the Federal Reserve may soon taper its bond-buying program remains strong, U.S. Treasuries finished the week mostly unchanged. Fears that the market will lose the support of its biggest buyer have triggered a sharp sell-off since early May, with yields on the 10-year note increasing by almost 0.45%. However, many strategists feel that even if the Fed does slow its monthly asset purchases, Treasuries will likely not suffer an additional large drop in prices, given a subdued outlook for inflation. Meanwhile, in a sign of how investment banks are trying to satisfy the demand for higher yields amid a low interest-rate environment, J.P. Morgan and Morgan Stanley are moving to assemble synthetic collateralized debt obligations. Synthetic CDOs offer investors a slice of a pool of insurance-like derivative contracts on company bonds. These are the very same financial instruments blamed for much of the 2008 financial crisis. During the crisis, synthetic CDOs pegged to mortgage loans that ultimately defaulted caused losses throughout the global investment landscape. Their catastrophic impact was denounced by many politicians and investors, practically eliminating the market for these highly engineered financial instruments. Now, a group of institutional investors has asked investment banks to construct synthetic CDOs again. At the same time, market participants are dipping back into a related type of security tied to corporate debt, known as collateralize loan obligations, with more than $35 billion sold this year. Based on these activities, we feel banks and investors are increasingly willing to ignore bad memories in an effort to reach for higher returns, suggesting the risk-on trade remains pervasive.



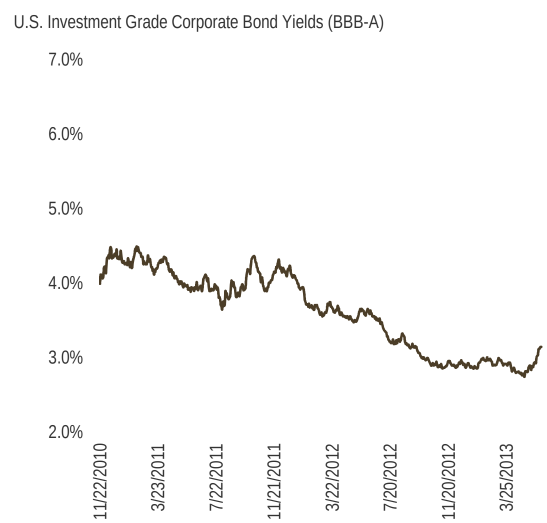
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	5.31.13	6.7.13	Change
3 month T-Bill	0.04%	0.04%	0.00%
2-Year Treasury	0.30%	0.32%	0.02%
5-Year Treasury	1.05%	1.10%	0.05%
10-Year Treasury	2.16%	2.17%	0.01%
30-Year Treasury	3.30%	3.33%	0.03%

SEE IMPORTANT DISCLOSURES ON BACK PAGE. Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.



Source: Merrill Lynch



Source: Merrill Lynch

Stock Market Update

The domestic equity markets had a strong end of the week with gains on Friday erasing losses from earlier in the week. Markets were positive for the week after two consecutive down weeks. The Dow Jones Industrial Average closed at 15,248.12, gaining 133 points for the week, or up 0.88%. The broader S&P 500 Index ended the week up 0.77% to close at 1,643.38, while the NASDAQ Composite finished higher by 13 points, or up 0.39% to close the week out at 3,469.22.

U.S. payrolls rose 175,000 last month and a revised 149,000 in April that was smaller than first reported. The unemployment rate ticked up to 7.6% in May from April's 7.5% reading. The steady improvement in the jobs market signals progress but the report also seemed to give the market some confidence that the improvements in the job market are not strong enough to cause the Fed to aggressively taper their bond purchases at this time. Earlier in the week, the Institute for Supply Management's Services Index rose to 53.7 in May, up from 53.1 in April. The reading shows that the service sector of the economy is stable and should support economic growth in the 2.0% to 2.5% range.

With most companies in the S&P 500 having reported their first quarter 2013 earnings, investors will begin to focus on the estimates for the rest of the year. The second quarter is expected to show only a 4% gain over the second quarter of 2012, but the third and fourth quarter estimates have not come down much and are expected to show very strong results versus the third and fourth quarters of last year with year over year increases of over 15% expected each quarter. These estimates may prove to be too optimistic if economic growth remains below average.

International markets were mostly down for the week as continued weak economic news out of Europe weighed on foreign equities. However, European markets rebounded on Friday reacting positively to U.S. jobs data. In Japan, the sell-off continued as the Nikkei Index ended the week lower by more than 6%. China also posted a decline for the week as the Shanghai Composite Index fell for the seventh straight day.

Issue	5.31.13	6.7.13	Change
Dow Jones	15,115.57	15,248.12	0.88%
S&P 500	1,630.74	1,643.38	0.78%
NASDAQ	3,455.91	3,469.22	0.39%
Russell 1000 Growth	744.63	748.66	0.54%
S&P MidCap 400	1184.32	1,181.26	-0.26%
Russell 2000	984.15	987.62	0.35%
MSCI EAFE	1,702.25	1,682.78	-1.14%
MSCI Small Cap	176.60	172.69	-2.22%

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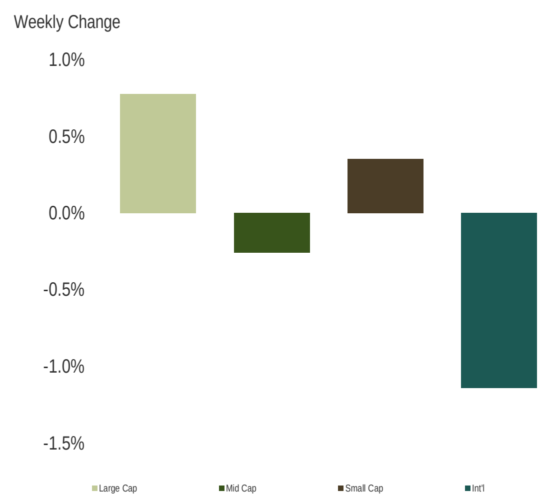
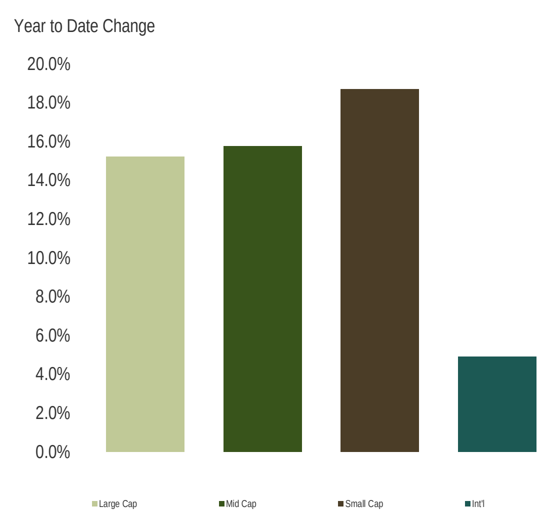
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.



Source: Standard & Poor's, Russell Investment Company, MSCI

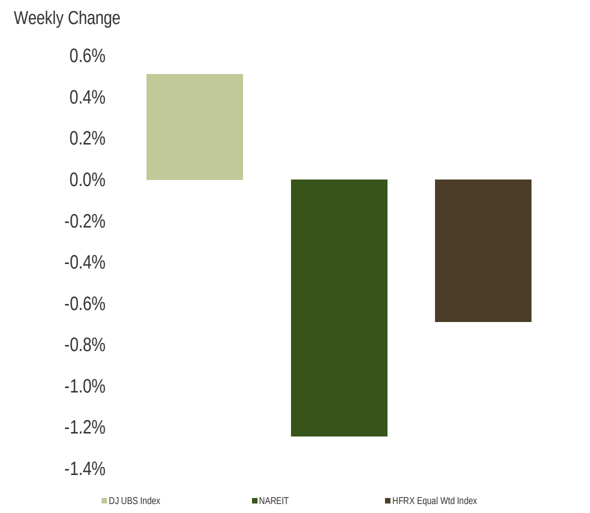


Source: Standard & Poor's, Russell Investment Company, MSCI

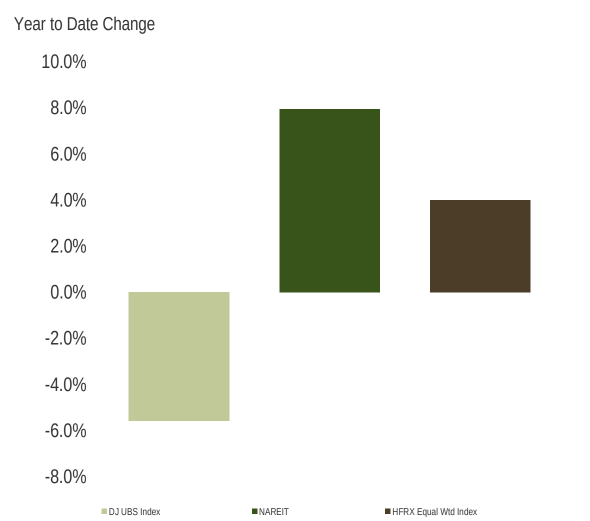
Alternative Investments Market Update

Crude oil ended the week up 4.81% after the dollar plummeted against a basket of major currencies with some soft initial job claims data out of the U.S. Crude also advanced after a weekly report from the Energy Information Administration (EIA) announced that U.S. crude stockpiles dropped more than expected last week, easing demand growth concerns. The EIA weekly oil report showed U.S. crude inventories plunged 6.30 million barrels and gasoline stocks eased 0.40 million barrels in the week ended May 31. Analysts expected U.S. crude inventories to dip, but to only drop about 0.80 million barrels last week. Traders had been concerned about high U.S. inventory, especially with last week's EIA report showing total U.S. crude supplies at 397.6 million barrels, which brought the inventory to the highest level since at least 1978, the year when the agency said it began collecting the data. For the latest week, gasoline supplies fell by 400,000 barrels, while distillate stockpiles, which include heating oil, rose by 2.6 million barrels, according to the EIA. Crude ended the week at $96.15 a barrel.

Gold prices tumbled Friday by more than $30 an ounce, for their first weekly loss in three, after jobs growth data came in slightly better than expected, driving investors away from the precious metal. Labor department data showed the U.S. created 175,000 jobs in May, an increase that exceeded previous forecasts of 164,000. These better-than-expected figures helped push money back into the dollar and equities, which is working against bullion. Also announced this week, investment funds pulled $9.1 billion from commodities markets in April, the second biggest monthly outflow on record, as fears of tighter monetary policy prompted second thoughts about the precious metal and other hard assets. The bulk of net outflows, $8.7 billion, were from exchange traded products backed by precious metals. According to Barclays, "poor performance, regulatory uncertainty and ethical considerations regarding agricultural exposures" all contributed to the sluggish commodity investment activity so far this year. They went on to note that the number-one driver of outflows remains the steady liquidation of physically-backed gold investments.



Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research



Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research

Issue	Previous Week	Current[1]	Change
Gold	1,385.52	1,379.10	-0.46%
Crude Oil Futures	91.74	96.15	4.81%
Copper	327.25	326.75	-0.15%
Sugar	16.55	16.43	-0.73%
HFRX Equal Wtd. Strat. Index	1,177.31	1,169.20	-0.69%
HFRX Equity Hedge Index	1,121.78	1,106.96	-1.32%
HFRX Equity Market Neutral	944.76	946.39	0.17%
HFRX Event Driven	1,503.42	1,492.31	-0.74%
HFRX Merger Arbitrage	1,537.66	1,537.59	0.00%
Dow Jones UBS Commodity Index	130.63	131.30	0.51%
FTSE/NAREIT All REIT	170.46	168.34	-1.24%

SEE IMPORTANT DISCLOSURES ON BACK PAGE.

1 Prices reflect most recent data available at the time of publication

Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Bloomberg, The Wall Street Journal, The International Monetary Fund.

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