# Capstone Comments

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## What will we remember about 2012?

Throughout 2012 nervous investors did not have to look hard for reasons to avoid the financial markets. The daily headlines provided abundant gloom to feed their doubts but investors who acted on impulse could have missed a potential opportunity to participate in strong returns across the global financial markets.

The year opened with lingering concern about the weak US recovery, the debt crisis in Europe, and political uncertainty around the world. Many financial pundits had predicted another lackluster year for stocks and more market volatility. Some predicted a euro zone breakup triggered by impending debt defaults in Greece and Portugal. The global economy was showing early signs of a slowdown and many investors were weighing the potential economic impact of the US elections and so-called "fiscal cliff".

Despite a steady diet of bad news most markets around the world climbed the proverbial "wall of worry" to log strong returns. Major market indices around the globe delivered double-digit total returns and, as a group, the non-US developed and emerging markets outperformed the US equity market. Market-wide volatility fell to its lowest level in six years.

After a flat 2011 the US stock market posted a strong first quarter as the US economy showed signs of improvement and perceptions of the European debt crisis improved. The S&P 500 had its best first-quarter rally in 14 years, closing near a four-year high and a 12.6% total return. When the second quarter began, markets retreated as Europe's debt crisis returned to center stage and signs of slowing global growth emerged – especially in China where lower world demand had begun to affect exports. During the summer the markets improved as European tensions eased on increased European Central Bank loans to Spain and Italy. There was also rising speculation the Federal Reserve was prepared to deliver additional monetary stimulus to the US economy. In September the Fed announced its third round of quantitative easing and the Bank of Japan also announced an ambitious plan to stimulate its economy. These central bank actions helped drive the markets during the third quarter. Mortgage rates reached historical lows and year-over-year home prices rose for the first time since the 2007 financial crisis. In the fourth quarter, investor attention turned to the US election and the prospect of gaining certainty regarding future government spending, taxes, growth policy, and regulation. Stocks fell in the weeks following the election but recovered earlier losses by late December, however, and as the year ended lawmakers scrambled to reach a compromise (Dimensional Fund Advisors, "2012 Review: Economy & Markets").

Looking forward to 2013 it seems likely we will see a continuation of slow but positive economic growth. The focus will remain on the effects from the resolution of the "fiscal cliff", the upcoming debt ceiling, and on Federal Reserve decisions regarding quantitative easing, inflation, and interest rates. True courage and leadership in Washington would be a refreshing outcome for 2013.


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