

## HUNTINGTON REVIEW AND OUTLOOK FOR 2012

### ECONOMY

The U.S. economy is expected to grow at a modest 2.3% in 2012, just ahead of weak 1.6% estimated growth in 2011. Volatility will likely remain high, with European sovereign debt concerns and uncertain tax policies in the U.S. posing continued downside risks, especially in the first half of the year. However, economic expansion has become more sustainable in recent months, as a generally sound private sector has been adding to payrolls, capital expenditures and profits. Record affordability is expected to provide a needed boost to housing markets, and low interest rates are expected to fuel continued growth in consumer spending on durable goods. Some of these gains may be offset by slower U.S. export growth from an expected slowdown in the European economy and some reductions in government spending. Inflation in the CPI-U is expected to broaden in 2012, and remain above 3%, with energy price risks especially high in the second half of the year.

### FIXED INCOME MARKETS

A massive “flight to quality” fully describes market action in fixed income markets for 2011. Treasury yields fell across all maturities, with intermediate and longer-term bond yields declining by 1.25% on average. In terms of sector performance, first place honors go to municipal markets, where investor fears of massive defaults were largely unfounded, allowing a rebound in valuations that generated over 11% in total return. Corporate bonds landed at the other extreme, falling far short of Treasury returns by -4.15%. Taken together, broad fixed income indices ended 2011 with a 7.88% total return. Looking ahead, we expect a continuation of the “flight to quality” trend in U.S. Treasuries until the European sovereign debt crisis ebbs. However, rising inflation and continued economic growth will likely require higher long-term interest rates, with forecasted U.S. Treasury rates above 3% by year-end, and on an upward path in 2013. Given our outlook for ongoing economic growth and positive earnings growth, we suggest long-term investors consider medium to higher-quality issuers in the utility, technology and financial sectors. In the case of municipal buyers, our focus is on two areas: 1) General Obligations with strong collections and taxing capacity; and 2) Enterprise bonds, such as water, sewer, wastewater and transportation.

### U.S. EQUITY MARKETS

Despite considerable market volatility, the S&P 500 ended 2011 exactly where it began, at 1257. Similar to bonds, higher quality, large capitalization companies in defensive sectors were the best performers for the year. Income was an important consideration for returns and investor preference because all of the +2.1% return for 2011 came from dividends. As for the year ahead, we believe the stock market will remain within a broad range until world economic issues are resolved. Gains will be less pronounced with more volatility surrounding economic events and earnings releases. However, given the market’s current position within that range, upside potential is probably limited to mid-single digit returns for 2012. Our sector weights are tilted toward energy and technology, which have excellent risk/reward characteristics. We recently reduced allocations to last year’s winners and upgraded Financials to market weight on good valuation measures, sentiment, and earnings growth stabilizing. Regional banks in particular are favored as they are less exposed to negative risk factors and offer strong valuation metrics.

### INTERNATIONAL MARKETS

A modest gain of 3.3% in the fourth quarter of 2011 left the EAFE index with a 12% drop for the year. Despite all of the concern about currencies, especially the euro, the monetary impact on the year’s return was non-existent. Euro-area stocks led the decline, followed by the Pacific region, while UK’s equities posted much better returns. Emerging-market equities had a tough year as investors looked to reduce risk. Events in the euro region will likely continue to influence market volatility over the next several months, taking the focus away from company fundamentals and stock valuations. The overall earnings outlook for 2012 for EAFE constituents is for 8% to 9% growth, similar to last year, and the valuation placed on that outlook is relatively modest. What is missing is confidence that another major financial earthquake has been averted by European leaders. Until the overall fear of a macro shock is allayed, we expect international markets to remain volatile. Our focus remains on well-financed companies operating in broadly diversified geographies, and prefer good dividend payers as a stabilizing factor.

*While believed to be accurate, the presented information is general in nature. Investors should consider their individual financial circumstances and the inherent risks of investing with their investment advisor.*

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