

Viewpoint

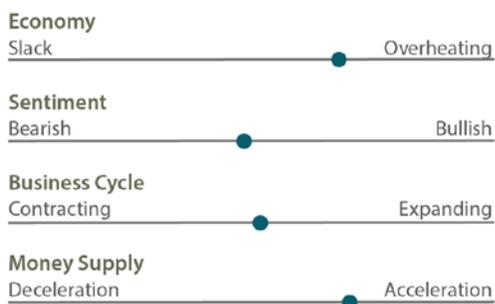
Baird Investment Management (BIM) manages high-quality portfolios for high-net-worth individuals and institutional clients.

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“It’s astonishing what foolish things one can temporarily believe if one thinks too long alone.”
–John Maynard Keynes

Market barometer



Source: MTI, Investors Intelligence, Bloomberg

Market update as of 6/30/13

	MTD	YTD	Trailing 12 Months
Dow Industrial Average	-1.3%	15.2%	18.9%
S&P 500	-1.3%	13.8%	20.6%
Russell 1000® Growth	-1.9%	11.8%	17.1%
Russell MidCap® Growth	-1.2%	14.7%	22.9%

Source: Russell, APL

2013 Mid-Year Outlook

As we look to the second half of 2013, we see a mostly favorable investment backdrop. The domestic economy should continue to move along at a low, but positive single digit rate of growth. Employment is expected to improve, and with it, consumer confidence and spending should follow. A strengthening dollar, combined with relatively weaker foreign economies, is likely to keep a lid on inflation, further aiding the U.S. expansion. The drag from tax increases and the sequester should continue to dissipate in the second half of the year. While we would prefer a more robust outlook, positive GDP growth should be supportive for stocks and allow corporate earnings to advance further. Our portfolios reflect that pro-growth sentiment, biased to companies with domestic revenues and profits. We expect to remain at least benchmark-weighted to sectors such as producer durables, energy and consumer discretionary.

However, there are factors tempering our enthusiasm. Internationally, Europe likely stays in recession, China’s growth continues to decelerate and Middle East conflicts go on without resolve. As we learned last quarter, communication from the Federal Reserve regarding monetary policy will likely cause additional market volatility in the coming months. In the recent past, we have dealt with the “fiscal cliff”, “sequestration”, and “quantitative easing”, and now we add “tapering” to the list. When, and to what degree, the Fed slows the program of purchasing U.S. Treasury bonds remains to be seen. Great skill will be required to appropriately unwind the large stimulus that has been part of the investment equation for several years. The silver lining is that the Fed is signaling that the economy is on firmer footing, meaning less stimulus may be necessary in the future.

Lastly, it is our experience that company managements often take the opportunity to modify earnings expectations for the back half of the year during the second quarter earnings season.

In sum, we believe that these factors will lead to periods of heightened market volatility in the second half, but not derail the growth in the economy or the upward path for stocks.

To learn more about Baird Investment Management (BIM) and our products, please contact us at 800-792-4011 or 414-765-7246. Visit us online at bairdinvestmentmanagement.com.

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The S&P 500 Index is a representative sample of 500 leading companies in leading industries of the U.S. economy. The Russell 1000® Growth Index measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values and is a large-cap index. The Russell Midcap® Growth Index measures the performance of those Russell Midcap companies with higher price-to-book and higher forecasted growth values. The stocks are also members of the Russell 1000® Index. The Dow Jones Composite Average Index is computed from the stock prices of 30 of the largest and most widely held public companies in the United States.

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