

Market Commentary

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Second Quarter 2012

Economic Highlights

- **GDP:** After growing at 3.0% in the fourth quarter, economic growth slowed in early 2012, as U.S. real GDP increased at an annual rate of 1.9% in the first quarter. Following its June FOMC meeting, the Fed announced that "strains in global financial markets continue to pose significant downside risks to the economic outlook" and decided to continue its maturity extension program, commonly referred to as Operation Twist, through the end of the year.

Source: Dept. of Commerce (BEA)

- **Interest Rates:** Treasury rates tumbled during the quarter as investors sought the safety of U.S. government bonds against the backdrop of a slowing economy. Yields on 10-year Treasuries fell 56 basis points from 2.23% at the end of March to 1.67% by quarter's end.

Source: US Treasury

- **Inflation:** Consumer prices rose 0.9% through the first three months of 2012 before remaining flat in April and falling -0.3% in May. Core CPI, which does not include food and energy, rose at a rate of 0.2% per month in March, April & May.

Source: Dept. of Labor (BLS)

- **Employment:** Jobs growth has slowed considerably in recent months with a paltry 289,000 jobs added in March through May, marking a sharp deceleration from the 757,000 jobs added in the three prior months. In the twelve months through May, 1.782 million jobs have been added to U.S. non-farm payrolls.

Source: Dept. of Labor (BLS)

- **Housing:** After reaching new lows in January, national home prices have begun to rise in recent months. The S&P Case-Schiller 10- and 20-city Home Price Indexes were up 1.4% and 1.5%, respectively, in the three months from February through April.

Source: S&P

The U.S. Equity Market

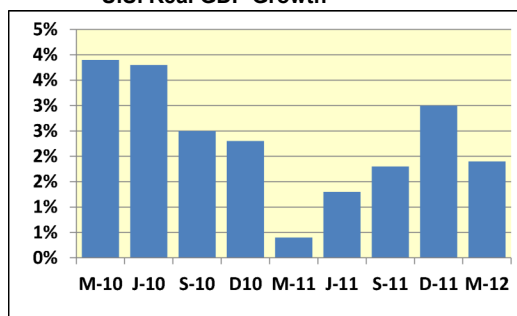
The U.S. stock market could not maintain its positive momentum from the first quarter, as investors sold equities in the face of weak economic data and deteriorating conditions in the European sovereign debt crisis. Despite jumping 2.52% on the final trading day of the quarter, the Wilshire 5000 Total Market IndexSM gave back -3.13% in the second quarter, bringing its year-to-date total return to 9.22% through June. The heaviest losses were experienced in May with monthly returns across the quarter of -0.71% in April, -6.15% in May and 3.95% in June.

U.S. Equity	MTD (%)	QTD (%)	YTD (%)	1 Year (%)
Wilshire 5000 Total Market Index SM	3.95	-3.13	9.22	3.96
Standard & Poor's 500	4.12	-2.75	9.49	5.45
Wilshire 4500 Completion Index SM	3.13	-4.76	8.77	-2.53
U.S. Equity by Size/Style	MTD (%)	QTD (%)	YTD (%)	1 Year (%)
Wilshire US Large-Cap Index SM	3.87	-3.11	9.15	4.63
Wilshire US Large-Cap Growth Index SM	2.95	-4.16	10.78	4.38
Wilshire US Large-Cap Value Index SM	4.74	-2.11	7.58	4.76
Wilshire US Small-Cap Index SM	4.63	-3.33	9.54	-1.37
Wilshire US Small-Cap Growth Index SM	4.87	-4.21	8.05	-3.27
Wilshire US Small-Cap Value Index SM	4.42	-2.52	10.88	0.26
Wilshire US Micro-Cap Index SM	5.40	-2.85	15.37	-1.61

Total returns during the second quarter were comparable across size segments with the Wilshire US Large Cap, Wilshire U.S. Small-Cap and Wilshire US Microcap Indexes down -3.11%, -3.33% and -2.85%, respectively. Mid cap stocks were off -5.71%. For the year, both the large and small capitalization segments hung on to gains of nearly 10%. Growth stocks experienced larger losses during the quarter, as the Wilshire US Large-Cap Growth IndexSM fell -4.16% vs. -2.11% for the Wilshire US Large-Cap Value IndexSM, but still maintains its edge year-to-date: up 10.78% compared to 7.58% for value stocks.

Telecom Services was the best performing sector during the second quarter, posting a total return of 12.97%. The general fall in rates helped the interest-rate-sensitive Utilities group deliver an impressive 5.84% return. Six of ten sectors were in the red with the Information Technology and Energy groups lagging farthest behind with returns of -7.01% and -6.94%, respectively.

U.S. Real GDP Growth



Source: Dept. of Commerce (BEA)

After having accelerated through each of the past three quarters, from an annualized rate of 0.4% in the first quarter of 2011 to 3.0% in the fourth quarter, U.S. economic growth slowed in the first quarter of 2012. Real GDP grew at 1.9% during the quarter, showing signs that continued turmoil in Europe, a cooling Chinese economy and lackluster U.S. jobs growth were dampening economic activity. Despite notching eleven consecutive quarters of positive GDP growth, Q1's deceleration reminded investors of the fragile U.S. recovery's vulnerability to global forces.

The Non-U.S. Equity Market

Global stock markets took multiple hits during the second quarter, with events in continental Europe again taking center stage. Greece's ongoing fiscal woes were not the only news story affecting stocks this quarter as Spain's banking sector entered crisis mode; although a €100 million bailout to stabilize the nation's banks failed to calm investors' nerves, promises of increased fiscal integration among Eurozone nations spurred a dramatic rally in European stocks right at quarter-end. Malaise over the global economic slowdown hung over markets most of the quarter; however, China and the U.S. both announced renewed efforts to stimulate their domestic economies, giving further impetus to the global turnaround in stock markets in June.

Non-U.S. Equity	USD (%)				Local Currency (%)			
	MTD	QTD	YTD	1 Year	MTD	QTD	YTD	1 Year
MSCI AC World ex U.S.	5.90	-7.61	2.77	-14.57	4.11	-5.42	3.88	-8.39
MSCI EAFE	7.01	-7.13	2.96	-13.83	5.18	-5.43	4.24	-8.59
MSCI Europe	7.93	-7.47	2.40	-16.48	5.29	-4.00	3.29	-8.53
MSCI Pacific	5.56	-6.38	4.17	-8.29	5.13	-7.85	6.37	-8.00
MSCI Japan	5.14	-7.30	3.14	-7.23	6.98	-10.12	6.96	-8.34
MSCI EM (Emerging Markets)	3.86	-8.89	3.93	-15.95	2.14	-5.26	4.87	-6.58

The Fixed Income Market

Bond investors searching for yield found another challenging marketplace in the second quarter; the volatility of global stock markets yet again fueled safe-haven rotation into U.S. Treasuries, sending yields for this sector broadly lower over the quarter. Spreads on non-Treasury issuance widened over the quarter, although stronger balance sheets and attractive lending rates buoyed performance of investment-grade corporate bonds. The fiscal turmoil in Europe and economic slowdowns in large emerging markets such as China continued to weigh on global bond markets.

U.S. Fixed Income	MTD (%)	QTD (%)	YTD (%)	1 Year (%)
Barclays U.S. Aggregate	0.04	2.06	2.37	7.47
Barclays Long Govt./Credit	-0.40	7.32	5.04	24.58
Barclays Long Term Treasury	-1.36	10.57	4.16	32.26
Barclays U.S. TIPS	-0.56	3.15	4.04	11.66
Barclays U.S. Credit	0.43	2.46	4.55	9.54
Barclays U.S. Corporate High Yield	2.11	1.83	7.27	7.27
Global Fixed Income	MTD (%)	QTD (%)	YTD (%)	1 Year (%)
Barclays Global Aggregate	0.48	0.62	1.50	2.73
Barclays Global Aggregate (Hedged)	-0.16	1.50	2.73	6.70
Barclays EM Local Currency Government Universal	3.05	-1.30	3.63	-1.52
Barclays EM Local Currency Govt Univ (Hedged)	0.91	1.83	2.58	5.43

The Real Estate & Commodity Markets

U.S. real estate-related securities enjoyed another quarter of positive performance, overcoming a downturn in May to outpace the broad stock market. Non-U.S. real estate markets also managed positive returns in the second quarter, despite increased volatility in the broader equity markets. The first-quarter 2012 run-up in crude oil prices dramatically changed direction in the second quarter; crude oil dropped 17.6% to end the quarter at \$84.96 per barrel. Gold prices also dipped -3.9% to close the quarter at \$1,604.20 per troy ounce. Unsurprisingly, these bellwether commodities' reversals of fortune contributed to losses for the sector as a whole.

Real Estate / Commodity	MTD (%)	QTD (%)	YTD (%)	1 Year (%)
Wilshire US RESI SM	5.55	3.54	14.85	12.56
Wilshire Global ex US RESI SM	7.23	1.45	17.70	-1.87
Wilshire Global RESI SM	6.29	2.52	16.13	5.31
Dow Jones UBS Commodity Index	5.49	-4.55	-3.70	-14.32
S&P GSCI Commodity	1.20	-12.38	-7.23	-10.74
Alerian MLP Index	3.31	-2.28	-0.35	7.86

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