Schaper, Benz & Wise
INVESTMENT COUNSEL, INC.

Economic and Market Summary
April 2011

Just weeks ago marked the two-year anniversary of the stock market bottom. The stock market has almost doubled since then, with minor corrections along the way. The corrections arose primarily from bouts of fear driven by exogenous shocks. Last year, we experienced the Gulf oil spill and early fallout from European sovereign debt issues. This year, we have encountered Middle East/North African tensions, the tragedy in Japan, and the still ongoing debt crisis in the European periphery countries. While these events make headlines and can dampen confidence levels, the important takeaway is that our economy is on solid footing. U.S. GDP has been expanding for six consecutive quarters, and we expect growth to continue at a healthy pace.

Global economic improvement, combined with an enhanced competitive position due to dollar weakness and heightened efficiencies, has led to strong export growth. Capital spending is projected to rise 11% this year, almost twice last year's pace. This is attributed to pent-up demand, the business expensing provisions of the new tax law, and surplus cash balances. Household debt has continued to fall and is getting closer to a more sustainable range. The blend of rising savings and declining debt bodes well for future consumer spending, especially in an environment where businesses feel increasingly comfortable hiring new workers. With rising confidence levels and continued robust profits, employment and compensation measures could surprise to the upside in 2011.

Because Fed Chairman Bernanke worries more about deflation than inflation, we believe the Fed will continue to keep the federal funds rate near 0% even in the face of creeping inflation expectations. While core inflation is still comfortably below the Fed's informal 2% target, commodity prices have risen substantially. The rise in food and energy prices has been most notable and is a key reason why some Federal Reserve members have become more vocal in announcing their desire to gradually remove extraordinary policy measures. We commend the Fed's intention to return to more normalized monetary policy. We note that the change in direction, however slight, could be disruptive to the markets. The scheduled June 30 end to QE2 has the potential to result in higher bond yields since the Fed bond-buying program has thus far almost entirely offset the cumulative U.S. federal budget deficit since March 2009.

The heated political battles being waged over government spending and debt in Wisconsin are a microcosm of what we can expect at the national level. Almost every American agrees that spending cuts are necessary, but no one wants to be personally impacted. It remains to be seen whether politically difficult decisions will be made or if the status quo will prevail. Clearly, the current trajectory of the federal budget cannot be sustained. We believe the best solution would be adjustments made more from spending cuts rather than tax hikes because higher taxes have a disproportionate impact on growth.

We will remain cautious on bonds until there is a credible plan to reduce the deficit, monetary policy returns to a more normal state, and yields rise to levels more commensurate with inflation and credit risk. As for stocks, our expectation of moderate economic growth is supportive of further market gains and is an environment that should favor high quality, consistent growth companies. While the stock market has surged since the March 2009 low, earnings have advanced just as strongly. Therefore, stocks remain attractively valued at 14x our S&P 500 2011 EPS estimate of $96.

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To request our SEC Form ADV Part II, please contact Michael L. Wise, Chief Compliance Officer, at the address below.

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