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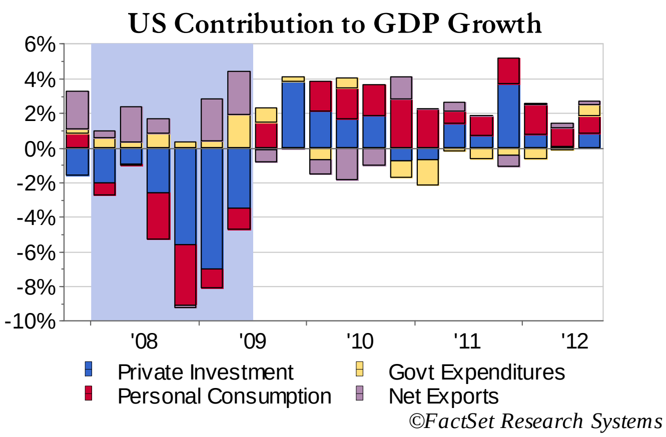
Market Review

November 2012

Economic Review

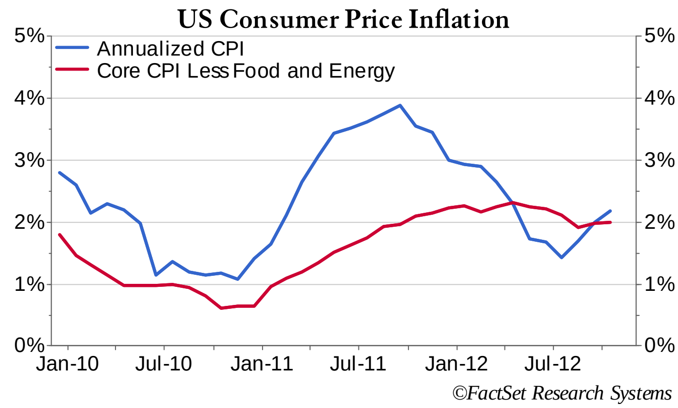
U.S. third quarter real GDP grew at an annual growth rate of 2.7% according to the revised estimate, with accelerating inventory buildup and growth in exports offsetting anemic consumer spending and a drop in capital investment from the private sector. Government investment was revised up to 3.7% from 3.5%. Home building grew 14.2%, revised downward from 14.4%, as the construction industry is benefiting from record low interest rates brought on by the Federal Reserve's continued accommodative monetary policies.



The Non-Manufacturing ISM increased from 55.1 in September to 55.4 in October, signaling production growth for the 34th straight month. The Manufacturing ISM continued to expand, up to 51.7 in October from 51.5 in September. Readings above 50 indicate expansion, while readings below 50 signal contraction.

The October U.S. unemployment rate increased slightly to 7.9% from 7.8% in September. U.S. payroll data surprised to the upside this month, as the economy added over 171,000 new jobs. Economists had predicted an uptick in the unemployment rate, however, brought on by an increase in the labor force participation rate and the impact of hurricane Sandy in the Northeast job markets. Government employment declined by 13,000 jobs in October, somewhat dampening the positive data.

The headline CPI ticked up 0.1% in October on a seasonally adjusted basis, matching economist expectations. The Core CPI, excluding food and energy, rose 0.2% in October, driven mostly by higher rent costs and rising home prices. Real wages (inflation adjusted) fell 0.2%, contracting 0.7% so far in 2012. Consumer purchasing power continued to lag the economic recovery, as food prices rose 0.2%, and have increased 1.7% over the last 12 months. Gas prices, however, fell by almost 7% in October, with the national average settling at $3.50 per gallon. Overall, both the headline and core CPI figures show modest inflation, up 2.2% and 2% over the last 12 months, respectively.



The U.S. Federal Reserve released minutes from an October meeting in mid-November and indicated some interest in additional bond-buying to follow Operation Twist, which is set to expire in December. Many Fed policymakers support replacing Operation Twist's $45 billion in monthly purchases with equally–sized, long term bond purchases. If such a measure is adopted, combined with the September mortgage-bond buying program, the Fed would continue to buy $85 billion of long term bonds each month.

The Paris based Organization for Economic Co-Operation and Development (OECD) cut its global growth forecast and warned of a major global recession in its semi-annual outlook. The U.S. risks a large negative shock if the fiscal cliff is not avoided. The OECD identified the debt- crisis in

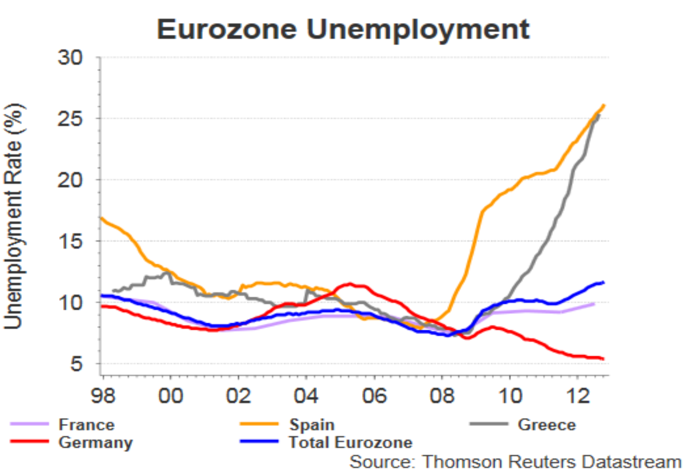
OECD Outlook: Real GDP growth, *in %*

	2011	2012	2013	2014
United States	1.8	2.2	2.0	2.8
Euro area	1.5	-0.4	-0.1	1.3
Japan	-0.7	1.6	0.7	0.8
Total OECD	**1.8**	**1.4**	**1.4**	**2.3**
Brazil	2.7	1.5	4.0	4.1
China	9.3	7.5	8.5	8.9
India	7.8	4.5	5.9	7.0
Indonesia	6.5	6.2	6.3	6.5
Russian Federation	4.3	3.4	3.8	4.1
South Africa	3.1	2.6	3.3	4.0

Source: OECD Economic Outlook

Euro-area as the biggest threat to the world growth. If the fiscal cliff is avoided, U.S. GDP is projected to rise 2% in 2013. The Euro area will be in mild recession through 2013 before returning to growth in 2014. The Organization urged central banks in the Euro area, Japan, China and India to ease their monetary policy.

The United Kingdom reaffirmed last month's GDP estimate of 4.1% annualized and consumer spending grew by 0.6%, the strongest since 2010. Unemployment in the Eurozone reached a new record high, trending slightly up to 11.7% from 11.6% in September. Spain and Greece continue to report unemployment in excess of 25%, and Germany's rate held steady at 5.4%. The European Union finance ministers approved an additional aid package for Greece and the German Parliament approved the measures, which will buy Greece more time to enact austerity measures and bring down the country's crippling debt burden. Angela Merkel has given indications that, if Greece can accomplish these goals, Germany may be willing to accept a haircut on Greek debt.

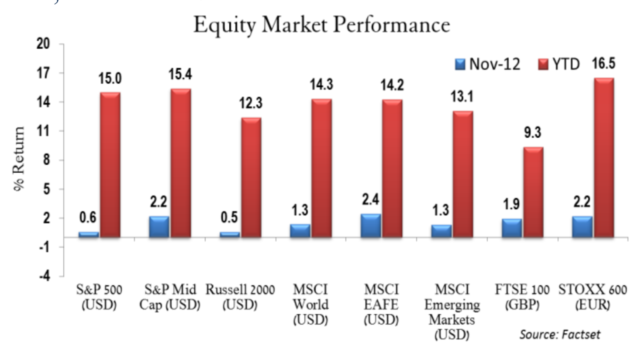


Moody's cut France's credit rating from Aaa to Aa1 with a negative outlook due to a worsening growth outlook, and S&P warned of a similar cut to French credit. The rating agencies also issued warnings of a possible downgrade to the United States, if policymakers cannot reach a deal to bring down the deficit. In addition, S&P cut credit ratings for three Spanish banks, as the country's sovereign debt remains one level above junk status.

In China, the Minister of Commerce, Chen Deming reaffirmed the country's annual GDP growth target at 7.5% and inflation continued to trend downward to 1.7% from the high of 6.4% in June 2011. The Japanese economy contracted 0.9% in the third quarter, signaling that the country is entering a recession.

Equity Markets

All the major equity indices posted gains in November, even as the U.S. fiscal cliff of automatic tax hikes and spending cuts looms on the horizon and Europe is in the midst of a recession. The S&P 500 climbed 0.6% and is up 15% for the year. Mid-cap stocks outperformed large-cap and small-cap stocks, while growth outperformed value. Equity in other developed markets, as represented by MSCI EAFE, climbed 2.4%.

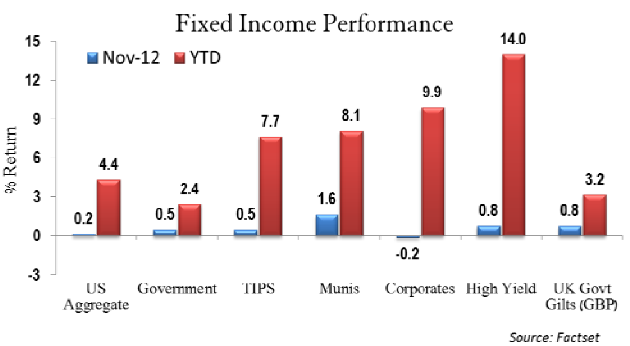


The equity markets in November were largely dominated by investor sentiment on aid to Greece and whether or not President Obama's administration and the Republicans would be able to agree on a deal to avoid the fiscal cliff. Equities trended sharply lower immediately after U.S. elections; S&P 500 declined 2.4% on the day after the election and over 5% seven trading days after the election, as results largely maintained the status quo. While President Obama won a second four year term, the Republicans maintained majority in the House of Representatives, increasing concerns of a political gridlock. Stocks reversed course following two weeks of losses on hopes that Greece and IMF might agree on Greece's next installment of aid. Additionally, global economic data, including encouraging manufacturing data from China, boosted stock markets.

Bond Markets

A post U.S. election risk off sentiment and a lack of U.S. fiscal cliff resolution increased the demand for government bonds in November. Treasuries outperformed the corporate fixed income for the first time since May. The Barclays US Government Index returned 0.5% in November. The Barclays Credit Index (A) Option Adjusted Spread widened 8 bps.

The Treasury yield curve trended downward as 2-year yields ended 2 bps lower at 0.285%, 10-year yields finished 8 bps lower at 1.62% and 30-year yields ended the month 7 bps lower at 2.81%. Treasury yields declined post-election, with 30-year yields reaching 2.73% by the middle of the month due to: unexpected declines in industrial production, Middle East tensions, and concerns over fiscal cliff. However, optimism over a possible budget deal and a cease fire in the Gaza Strip helped Treasury yields to rise as the month progressed.



Both the UK 10-year GILT and Germany 10-year Bund yields dipped 8 bps to close at 1.77% and 1.38% respectively.

Currency

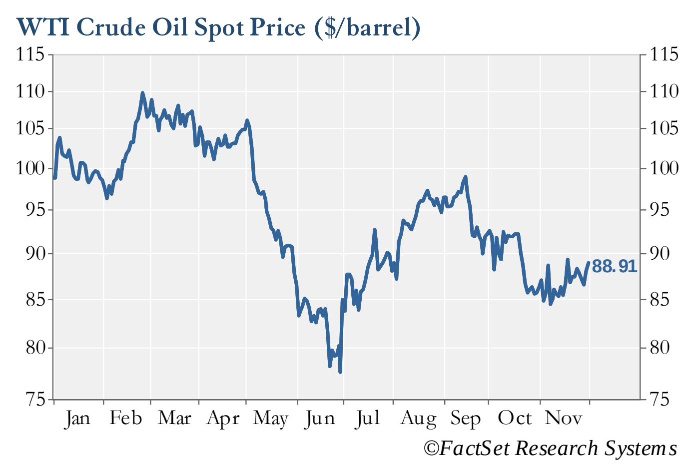
The US Dollar Index, which tracks the currency against those of six major U.S. trading partners, gained 0.3% in November, reversing the downward trend of the prior three months. Japanese Yen slumped 3.08% against the US Dollar, a seven month low, as investors bet that the central bank would be pressured to take more aggressive monetary easing measures if the opposition wins elections in December. The Brazilian Real fell to a three year low on speculation that weak economic growth may force its central bank to weaken the currency to help exports. The British Pound depreciated 0.5% against the US Dollar, and closed at 1.60265. The Euro appreciated 0.37% against the US Dollar to close at 1.3006 in November.

Commodities

The S&P GSCI rose 1.5% in November, turning the Index positive for the year as prices of industrial metals and energy increased. Strong Chinese export data and an increase in risk appetite after President Obama expressed confidence in striking a deal with Republicans caused the prices of Aluminum, Copper, and Zinc to increase. Agriculture and Precious Metals lead the S&P GSCI sub-indices for the year, with gains of 12.9% and 9.7% respectively.

S&P GSCI Industrial metals sub-index was the best performer amongst all the sub-indices, rising 6.4% in November. The top four performing commodities were industrial metals, with Aluminum rising 10% and Zinc gaining 9.7%. Lead and Nickel followed close behind, at 9.3% and 9% respectively. The metals sub-index was the worst performer in October, as it slumped 8.26% due to fear of a deceleration in global growth.

The S&P GSCI Energy Index increased 2.0%, as rising unrest in the Middle East caused prices of crude oil to increase. Except for Natural Gas, other energy sub-indices were in the positive territory. In fact, Natural Gas was the second worst performing commodity in November, and for the year, with losses of 6.8% and 20% respectively.



The agricultural index fell 2% as Soybeans, Coffee, Wheat, and Corn all finished the month in negative territory. For the year, the agricultural index is leading the ten GSCI commodity indices with a gain of 12.9%. Coffee and Soybeans prices decreased on expectations of increased supplies. Corn, Soybeans, and Wheat are amongst the best performing commodities for the year, with gains of 28.3%, 26.4% and 21.8% respectively.