VANTAGE CONSULTING GROUP
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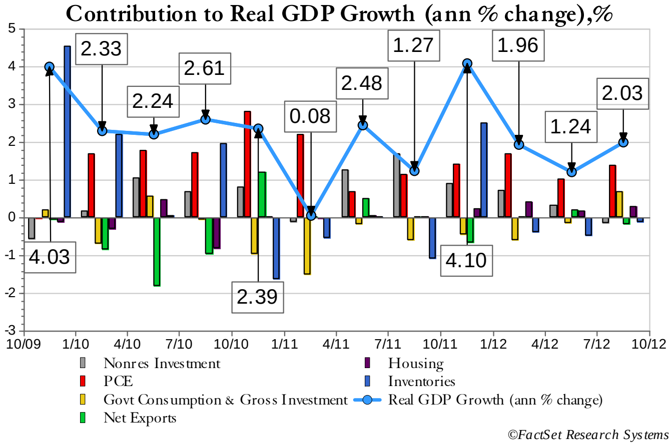
Market Review

October 2012

Economic Review

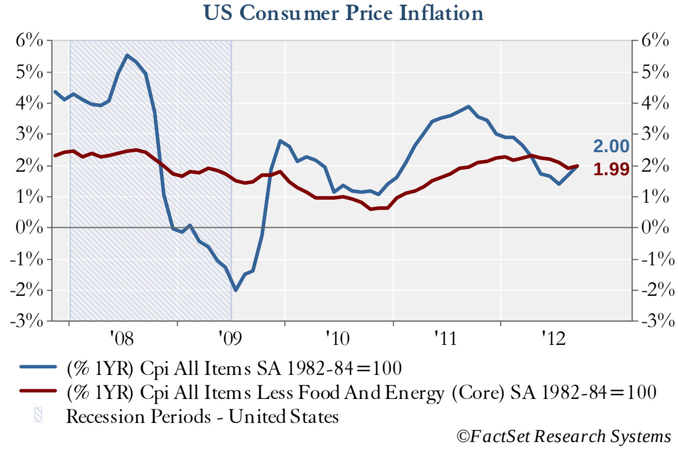
U.S. third quarter real GDP grew at an annual growth rate of 2% according to the advance estimates, topping the lackluster 1.3% growth in second quarter and slightly better than the expected 1.8%. Consumer spending (red bar in the chart below) accounted for most of the growth in GDP, while government spending (yellow bar) contributed to the growth for the first time in over two years. Housing also made a modest contribution. These were offset by net exports, hurt by weak demand overseas, and weaker inventories as businesses were hesitant to spend amid fiscal uncertainty.

Contribution to Real GDP Growth (ann % change),%



The headline CPI grew 0.6% in September, driven largely by energy prices. The core CPI (i.e. excluding food and energy) was up 0.1% for the third straight month. Both the headline and core CPI increased 2% YoY, slightly up from 1.7% YoY and 1.9% YoY in August. The 5Y/5Y forward break even rate of inflation increased 15 basis points to 2.86%.

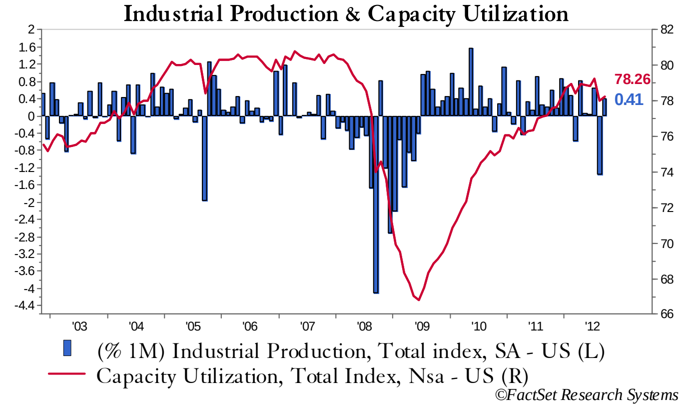
US Consumer Price Inflation



The September U.S. unemployment rate declined to 7.8%, breaking below 8% for the first time since January 2009 and well below the 8.1% forecasted by economists. U.S. payrolls increased by a moderate 114,000 jobs, though the previous two months were revised higher. August payrolls rose 142,000 vs. initially reported 96,000 while July was up 181,000 vs. previous estimate of 141,000.

Industrial production rose 0.4% in September, above the consensus of 0.2%. Capacity utilization inched up 0.3% to 78.3%, but is well below the long run historical average (1967 to date) of 80.7. Retail sales rose for the third consecutive month, increasing 1.1% in September. Retail sales for the prior two months were also revised higher.

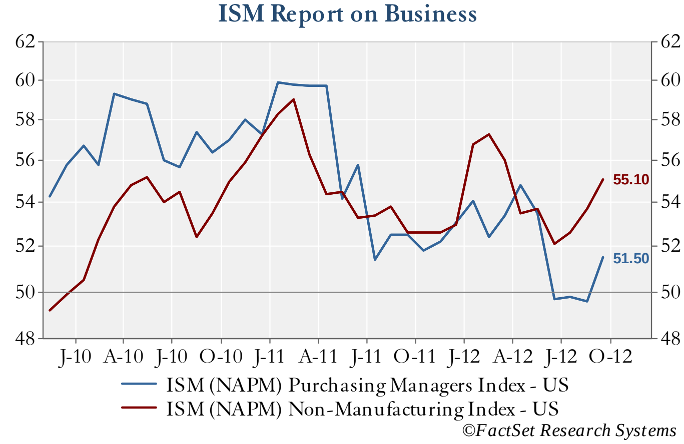
Industrial Production & Capacity Utilization



Personal spending climbed 0.8%, the highest level since February, while personal income rose 0.4%. Americans cut back on their savings as the savings rate dropped 0.4% to 3.3% of disposable income. This is the lowest level since November 2011 as the savings rate has been in a downtrend since June. Real disposable personal income decreased 0.1% in September, compared to a decrease of 0.3% in August. Real consumer spending increased 0.4%.

Non-manufacturing ISM increased from 53.7 in August to 55.1 in September, the highest level since March and higher than the expected 53.4. The manufacturing ISM expanded after three months of contraction. The index rose to 51.5 in September from 49.6 in August. Readings above 50 indicate expansion.

ISM Report on Business



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The U.S. Federal Reserve left monetary policy unchanged at its October meeting. The Fed's balance sheet maturity extension program (Operation Twist) is set to expire in December, while purchases of additional agency-MBS will continue indefinitely.

The International Monetary Fund lowered its world economic growth forecast, warning that the global economy risks going into a recession as growth slows in almost every major country. The forecast for 2012 was revised downward from 3.5% in July to 3.3% in October and the 2013 projection was revised from 3.9% to 3.6%.

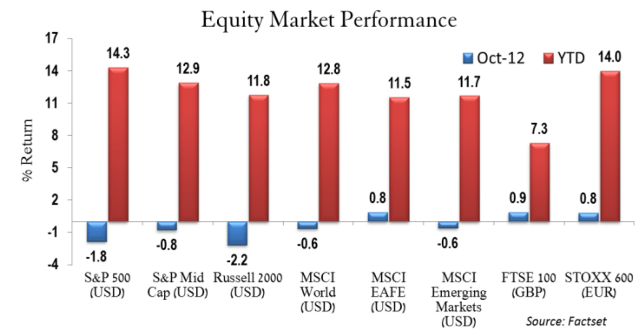
The United Kingdom emerged from recession by growing at 4.1% annualized during the third quarter. The unemployment rate in Eurozone soared to 11.6% in September, the highest since the formation of the 17 nation union. Economists expect the rate to continue rising until a solution to fix the debt crisis is found. German Chancellor Angela Merkel's Greece visit sparked protests in Athens as austerity measures demanded by Germany in exchange for EU and IMF aid are deeply unpopular. The Greek prime minister said that the country was close to reaching a deal with creditors to receive the next installment of the loan.

S&P cut Spain's sovereign credit rating two notches to BBB- with a negative outlook, citing deepening economic recession. S&P also warned of "rising tensions" between the central government and the semi-autonomous regions within the country. Moody's, meanwhile, left Spain's investment grade rating untouched, sparking a rally in Spanish government bonds. Moody's did downgrade credit ratings for five of Spain's regions the following week. The Spanish economy contracted in the third quarter as its GDP fell by 0.3% vs. the same period last year. Spain's GDP had declined 0.4% during the second quarter. Spanish prime-minister, Mariano Rajoy, has so far resisted asking for a total bailout.

Chinese real third quarter GDP grew at a 7.4% rate YoY, in line with the expectations but 0.2% lower than the previous quarter. This is also the slowest growth rate since March 2009.

Equity Markets

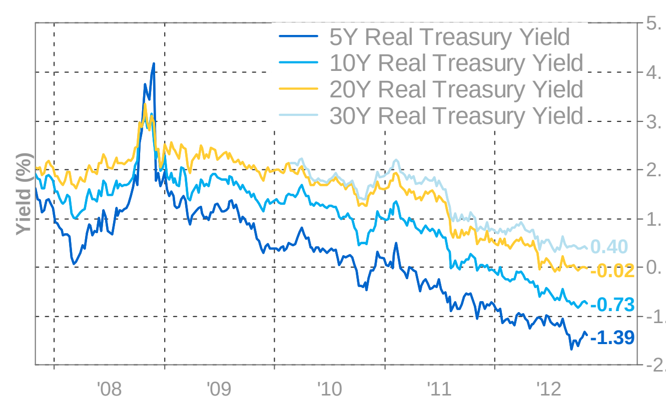
The U.S. stock exchanges closed for two trading days at the end of the month due to the landfall of Hurricane Sandy in New Jersey and New York. Though equities moved higher after the shutdown, domestic indices fell across the board in October. The S&P 500 fell 1.8%, as earnings disappointments by large companies weighed heavily on the Index. The S&P 500 continues to lead the pack in YTD gains and is up 14.3% thus far in 2012. Global markets finished the month with mixed results. The MSCI World Index finished down 0.6%, but major European indices finished higher. The British FTSE added 0.9% and the STOXX 600 finished 0.8% higher. Emerging markets closed October down 0.6%, but remain up 11.7% YTD.



Equity markets continued last month's volatile stretch, with 4.8% separating the high and low for the S&P 500. Markets swung up and down into mid-month, with the S&P gaining 1% in the first two weeks of October. Quarterly earnings disappointments of several blue-chip companies sent the Index sharply lower. The CBOE Market Volatility Index (VIX) increased 13.9%, closing October at 18.6.

Bond Markets

The fixed income credit markets experienced a broad based rally in October, in contrast to a subpar equity market performance. The low nominal Treasury yields and negative real Treasury yields, along with expansionary Fed policy, are likely behind investors' increased appetite for corporate bonds. The Barclays Credit Index (A) Option Adjusted Spread tightened 17 bps during the month and at one point reached a five year low.



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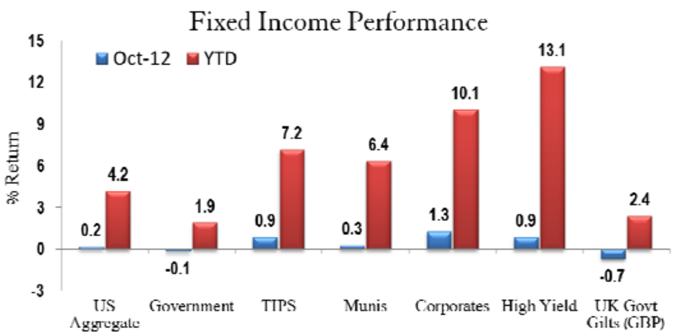
The Treasury yield curve remained flat with both 2-year and 10-year yields finishing 6 bps higher at 0.29% and 1.7% respectively, and 30-year yields ending the month 5 bps higher at 2.88%. Treasury yields rose during the middle of the month, with 10-year yields reaching 1.84% due to better than expected domestic economic reports and positive sentiment regarding the Eurozone. However, a weak U.S. earnings season and the ongoing European debt crisis limited the sell-off in Treasuries.



Source: Factset

The UK 10-year GILT yield rose 12 bps to close at 1.85%, while the German 10-year Bund yield remained flat to close at 1.46%.

Currency

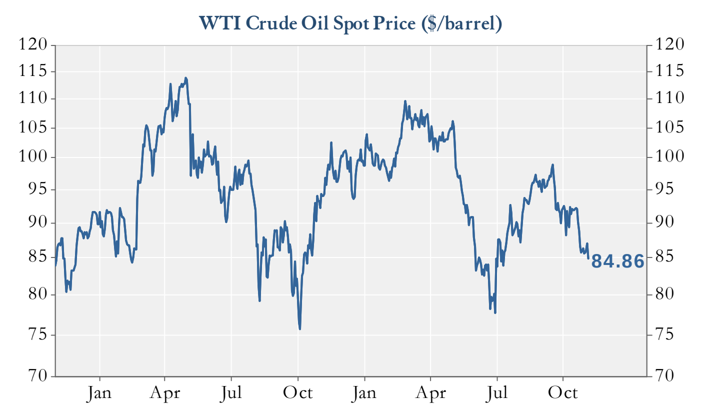
The US Dollar Index remained relatively flat in October, dropping 8 cents to close the month at 79.92. The US Dollar had mixed results against the major global currencies after strengthening mid-month following positive signs of moderate economic expansion. The Euro rallied strongly at start the month, but weakened significantly in the second half of October on disappointing economic news and further contraction in the Spanish GDP. Christine Lagarde, the Managing Director of the IMF, attempted to quell concerns by supporting a longer timeline for Greek and Spanish budget restructuring. The Japanese Yen continued to struggle against the major global currencies after poor economic data created expectations of additional stimulus by the Bank of Japan. The British Pound held against the US Dollar and declined 0.8% against the Euro.

Commodities

The S&P GSCI fell by 4.2% in October, the biggest monthly loss since May. Global growth concerns sent the prices of industrial metals and energy commodities lower. The Index has turned negative YTD for the first time this year, though the Agricultural and Precious Metals sub-indices have maintained substantial YTD gains.

Economically sensitive industrial metals were the worst performers in October, as the S&P GSCI Industrial Metals Index slumped 8.26%. Industrial metals had been the top performing sub-index in September on anticipation of increased demand through global stimulus. The main factor contributing to the weak performance of industrial metals this month is the slowdown in global growth from the West and China and concerns of continued deceleration in the future. Nickel and Aluminum are also among the worst performers YTD, posting losses of 14.5% and 10.9% respectively.

S&P GSCI Energy declined 4.41%, led by Crude Oil sub-index which fell by 6.85% amid concerns over global demand and high inventory levels. Except for Natural Gas, all energy sub-indices declined in October.



The agricultural index fell 2.8% as Corn, Wheat, and Soybeans all finished the month in negative territory. For the year, the agricultural index is leading the ten GSCI commodity indices with a gain of 15.2%. Livestock markets stabilized in October; Lean Hogs and Cattle were the top performing commodities this month. This is a reversal of their fall in September, due to concerns of oversupply, spurred by the torrid gains in the grain markets. Live and Feeder Cattle both outperformed the index with positive gains in October and Lean Hogs added over 6% this month.