VANTAGE CONSULTING GROUP
3500 PACIFIC AVENUE VIRGINIA BEACH, VA 23451 (757) 491-1200 FAX (757) 422-5378

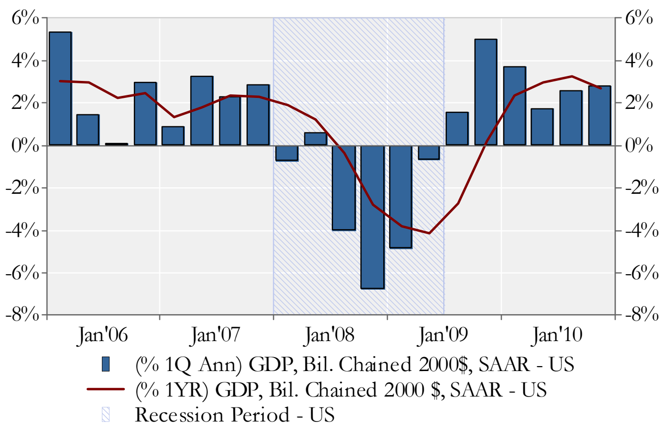
Market Review

February 2011

U.S. Economic Data

Real GDP in the U.S. increased at an annual rate of 2.8% in the fourth quarter of 2010, according to the second estimate released by BEA. This is lower than the advance estimate of 3.2% and the consensus of 3.3% as consumers and state and local governments spent less than previously estimated. Growth in consumer spending, which accounts for approximately 70% of GDP, was revised to 4.1% from 4.4%. This is still the fastest rate in four years. Federal spending decreased by 0.2% while state and local spending decreased by 2.4%, as governments try to cut deficits and get the fiscal house in order.

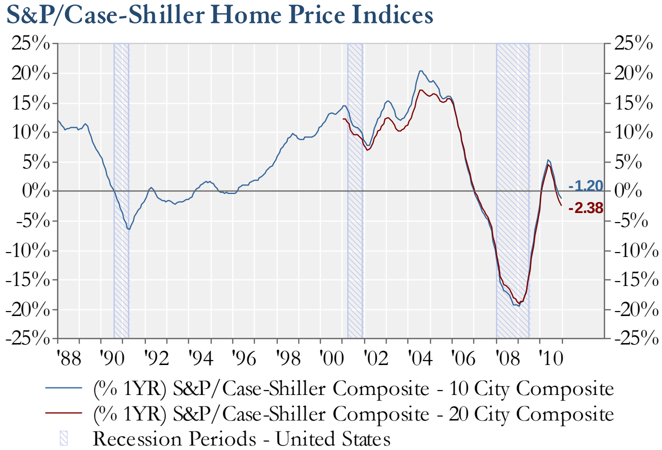
US Real GDP Growth



Source: FactSet Research Systems

The housing market continues to be weak as indicated by the S&P/Case-Shiller home price index. The 10 city composite index declined 1.2% year over year in December while the 20 city composite index declined 2.38%. Housing demand is expected to stay weak as this sector struggles to find a bottom.

S&P/Case-Shiller Home Price Indices

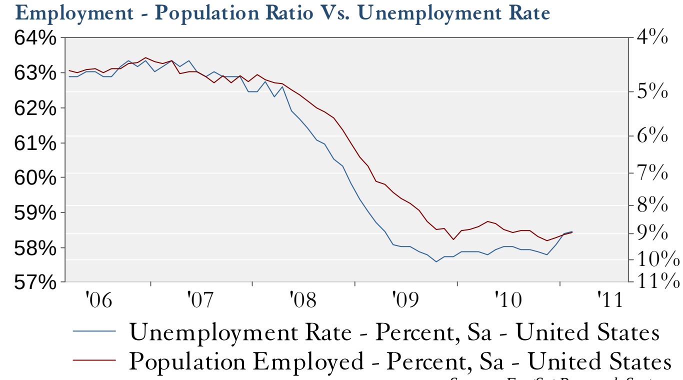


Source: FactSet Research Systems

The initial unemployment claims four-week average for week ending Feb 26th fell below the 400,000 level. Initial claims have been above this level since June 2008 and stayed above the mark until now.

The unemployment rate dropped to 8.9% in February, almost 1 percentage point less than 9.8% reported in November. However, the employment-population ratio, generally considered a better indicator of current state of employment, hardly moved during the winter and was at 58.44% in February. It has been close to flat for the last fifteen months.

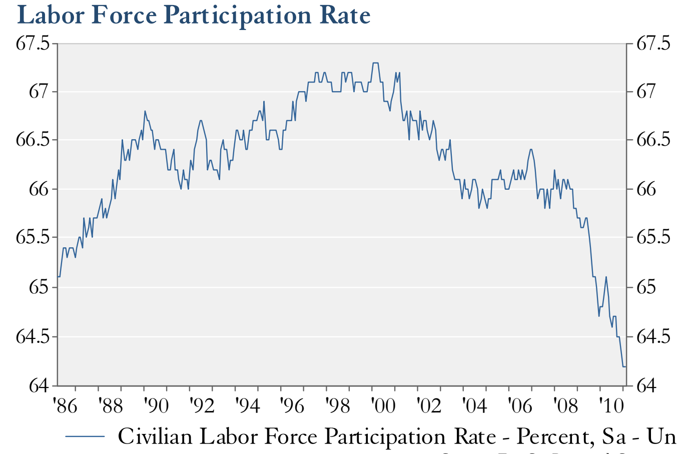
Employment - Population Ratio Vs. Unemployment Rate



Source: FactSet Research Systems

Moreover, the current labor force participation rate of 64.2% is at it its lowest level since 1984. Labor force participation rate is the percentage of working age persons (between age 16 and 64) in an economy who are either employed or are actively looking for a jobs. The rate generally has been between 66% and 68% during the last couple of decades before the onset of this recession.

Labor Force Participation Rate

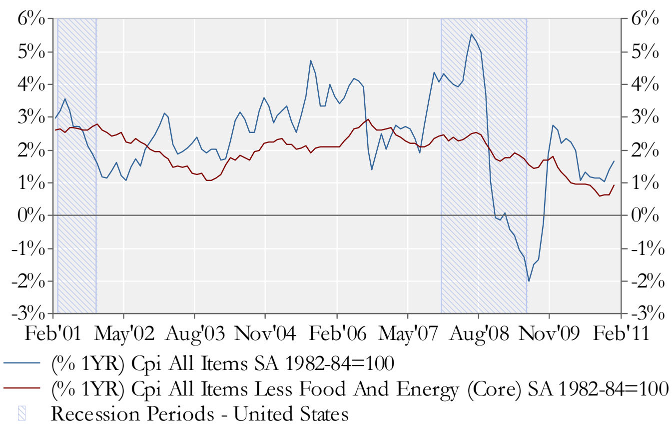


Source: FactSet Research Systems

There is an ongoing debate whether the low participation rate is a secular trend, i.e. change in demographics, or if it is a cyclical trend. If cyclical, the low rate implies that significant numbers of people have given up looking for job and includes people going back to school and current students staying in college longer. If the economic outlook improves and firms begin hiring, these people will likely start looking for jobs again and will be a drag on the unemployment rate.

Core CPI (CPI ex food and energy) was up 0.2% month to month and 1% year over year for the same period. Core Inflation remains tame in U.S., though the January month to month increase is the highest since Oct 2009. The Consumer Price Index climbed 0.4% month to month and 1.7% year over year in January. U.S. Federal Reserve Chairman Ben Bernanke said that the rising oil and food prices will probably cause only "modest" and "temporary" inflation in the United States. The January Producer Price Index was up 0.8%, matching the consensus, while the core PPI (PPI ex-food and energy) rose 0.5%, above the consensus estimate of 0.3%. The U.S. Core PCE index rose 0.1% in January, in line with expectations. The index was close to flat in December.

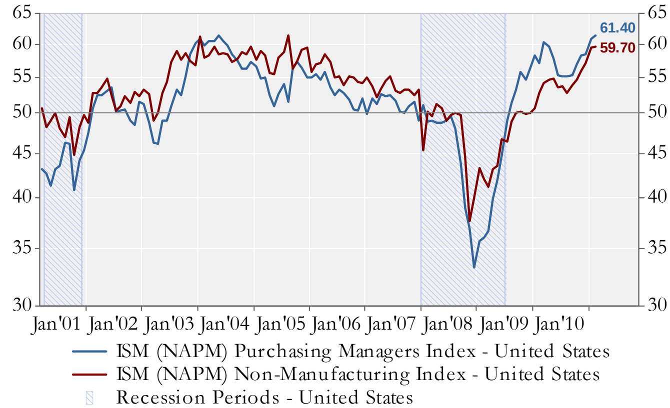
US Consumer Price Inflation



Source: FactSet Research Systems

The ISM Purchasing Managers Index climbed to the highest level in nearly seven years of 61.4, up from 60.8 in January and above the consensus of 60.9. This index has been above 50 for 19th consecutive months, indicating that the economy is expanding. The ISM Non-Manufacturing Index rose to 59.7 from 59.4 in January and above the consensus of 59.5.

ISM Report on Business



In summary, though there is some momentum in U.S. economic recovery primarily due to retail sales and manufacturing, it continues to face head winds from weak labor and housing markets, federal and state government austerity measures and higher crude prices.

Equity Markets

Equity markets delivered yet another strong month in February. U.S. markets set two and a half year highs during the third week of the month, spurred by good earnings and a spate of mergers. S&P 500 doubled from its intra-day low from March 2009 in a little over 700 days, the quickest pace since 1930s.

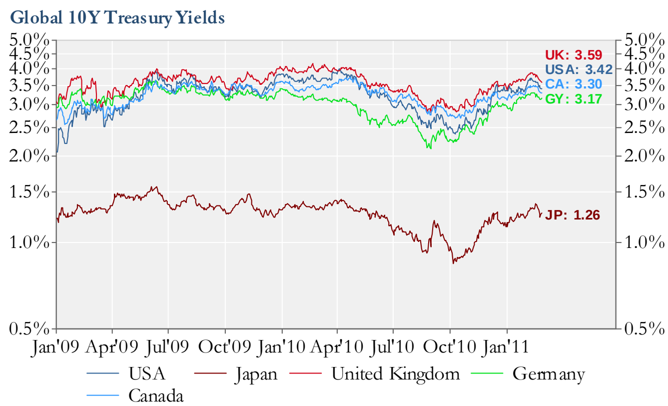
Small cap stocks outperformed large and mid-cap stocks in the U.S. The S&P 500 and S&P Mid-Cap climbed 3.43% and 4.65% respectively, while the Russell 2000 rose 5.48% in February.

The MSCI World index and MSCI EAFE gained 2.97% and 2.36% respectively. The FTSE 100 returned 2.64% while the STOXX 600 recorded returns of 2.47% during the same period. Emerging market equities continued to underperform compared to developed markets this year as investors continued to reduce their exposure to these markets. The MSCI Emerging Markets index was down 1.38% last month.

Bond Markets

The U.S. Benchmark 10 year yields rose slightly to close at 3.419% in February. The 10 year yields closed at 3.378% the prior month end. The yields rose to 3.725% on 8th February on signs of better economic conditions and weak three year treasury auction. The yields stayed at elevated levels most of the month on concerns of rising inflation and as the central bank took a more optimistic view of the economy. The last week of the month saw investors flying to safety on concerns of the Middle East situation causing Treasuries to rally. The U.S. Benchmark 30 year yields closed at 4.367%.

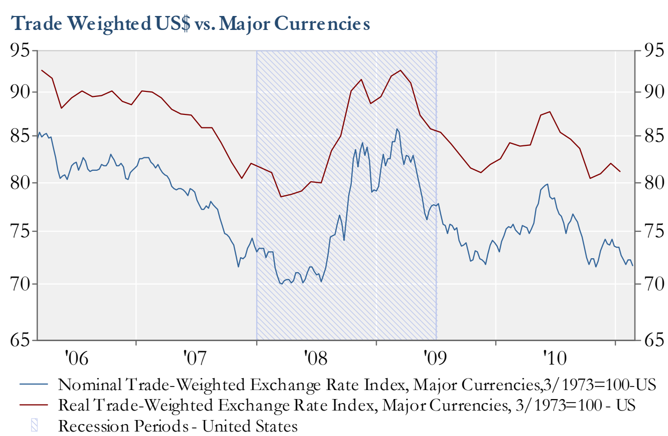
The German 10 Year Bund yield was nearly flat closing at 3.172% for February. The UK 10 Year GILT yield decreased 5 bps, closing at 3.59%. The 30 year UK Treasury came down 8 bps to close the month at 4.367%. The U.S. bond market (as represented by the Barclays Capital U.S. Aggregate Index) was nearly flat, returning 0.25% last month.



Source: FactSet Research Systems

Currency

The U.S. Dollar Index fell 1.1% in February and has dropped 2.7% since the start of this year. The South African Rand was amongst the best performers, gaining nearly 3.2% against the U.S. Dollar in February. New Zealand's Dollar lost 2.7% against the U.S. Dollar, making it the worst performer.



Source: FactSet Research Systems

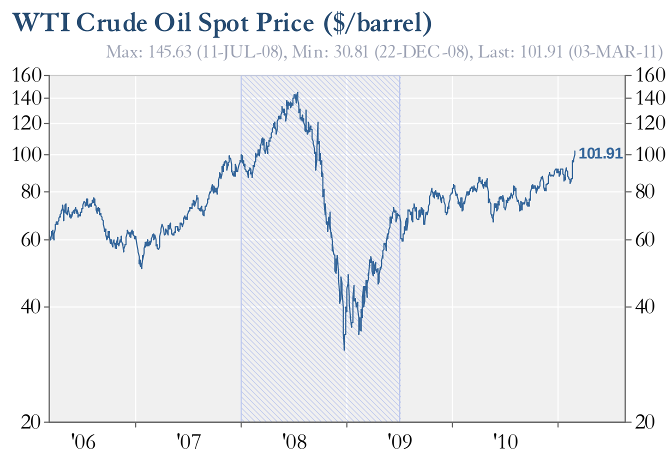
Euro closed at 1.38 USD, gaining 0.77% against the U.S. Dollar. The British Pound closed at 1.63 USD, appreciating 1.5% against the greenback. Both Euro and British Pound have gained against the U.S. Dollar for three straight months.

Commodity Markets

Commodities advanced in February as growing inflation in the emerging markets lifted softs while violence in the Middle East pushed energy higher.

The S&P GSCI Index was up 3.75% in February. The Dow Jones UBS Commodity Index was up 1.32% during the same period. Gold futures closed at $1,409.9 per ounce, up nearly 5.65% for February. Gold surged to a record high on March 1st as Ben Bernanke said that inflationary pressures caused by surges in oil and other commodity prices are only temporary. Silver gained 20% to close at $33.82 per troy ounce in February.

Crude oil closed at $96.97 a barrel, gaining 5% during February. Though well below the July 2008 peak of $145.29, the higher prices have raised concerns about the strength of the economic recovery. The near term price of Crude will depend on how the events in Middle East unfold.



Source: FactSet Research Systems

Cotton climbed 22% last month to close at a record $2.05 a pound. Cocoa gained 12% during the same period closing at $3,757 a metric ton.