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Market Review

June 2011

The month of June was similar to the prior three months with markets swinging between risk-on and risk-off within a short span of time. Concerns over Greek sovereign debt and a slowing global economy dominated most of June leading to broad risk aversion. Risk appetite significantly increased towards the end of the month as Greece avoided a default and the U.S. reported some stronger economic data. Equities, bonds and commodities declined in June.

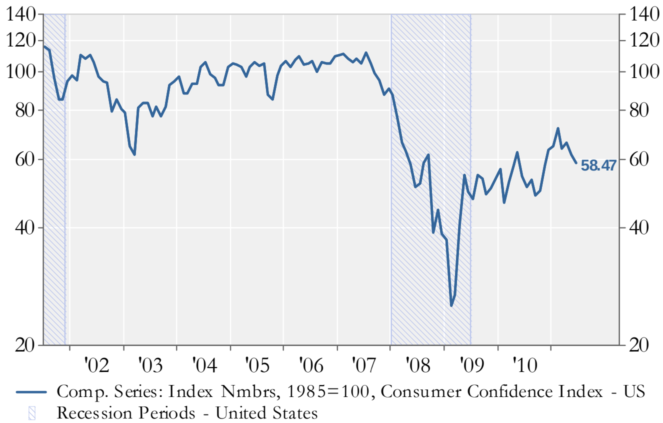
Economic Review

Anemic non-farm payroll growth (refer to May Market Review), declining home sales (refer to May Market Review) and weak ISM non-manufacturing numbers were some of the economic reports that caused investor optimism to fade in June.

The 2011 first quarter U.S. Real GDP growth was revised to 1.9%, a 10 basis point increase from the previous estimate, but below the consensus estimate of 2%. Real GDP grew at 3.1% during the prior quarter.

According to the Conference Board, Consumer Confidence unexpectedly fell to 58.5 in June, its lowest level in seven months. The two components that make up the Index, the present situation index and expectation index, both suffered declines.

US Consumer Confidence



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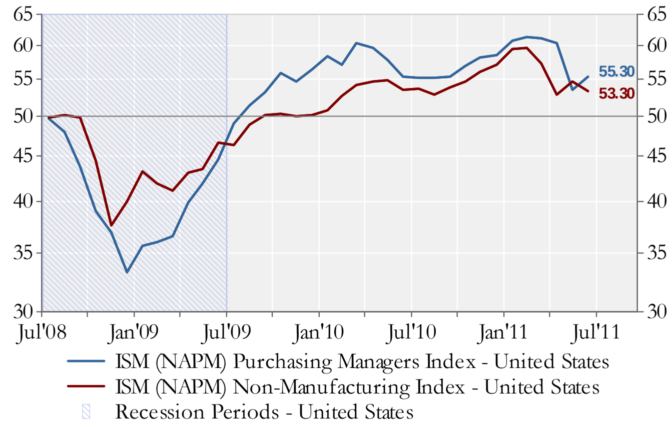
CPI for all urban consumers increased 0.2% in May and 3.6% year-over-year. Core CPI (CPI-U less food and energy) increased 0.3% in May and 1.5% year-over-year. The Index of Leading Economic Indicators rose by 0.8% in May after receding 0.4% in April. Eight of the ten indicators that make up the Index contributed positively with interest rate spread and building permits contributed the most.

The ISM manufacturing index report caught the market off guard, rising to 55.3% in June from 53.5% in May. Analysts had expected the Index to decline to 52.3%. Last month, the Index saw its biggest one month drop since 1984 due to disruptions in the global supply chain caused by the earthquake in Japan.

ISM Report on Business



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The ISM non-manufacturing index, which represents about 70% of the U.S. economy, expanded for the 19th consecutive month but fell more than what economists had anticipated. The index dipped to 53.3 in June from 54.6 in May. A reading of above 50 is considered expansionary.

On the international front, the European sovereign debt crisis continued to dominate the headlines. In a crucial vote, the Greek Parliament approved austerity and privatization bills on June 30th in order to gain access to a $12.8 billion tranche of the previously approved bail-out package. There are many skeptics who believe that a default is the only option left for Greece and Europe. With the current government debt to GDP ratio at nearly 150%, huge expenditure cuts and tax increases are required just to make the debt more manageable, but the severity of these austerity measures could worsen the recession. Moody's downgraded Portugal's sovereign debt four notches to junk status and said the downgrade reflected fears that Portugal would need to follow Greece in seeking a second bail-out.

On the emerging market front, China hiked the reserve requirements by 50 basis points to 21.5% and one year lending and deposit rates by 25 basis points to curb its rising inflation, which reached a 34 month year-over-year high of 5.5%. India hiked its overnight interest rate by 25 basis points to 7.5%. This is the 10th hike during the past 15 months. The wholesale price index (inflation) in India rose 9.06% year over year in May.

Moody's warned that the recent Chinese nationwide audit may have understated the debt of local governments by $541 billion and that three quarters of these loans could turn sour.

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Equity Markets

The U.S. equity market continued its slide during the first half of June on concerns of a broad economic slowdown and a Greek default. The S&P 500 was in the red during seven of the eight weeks, ending June 24th, 2011. The equity markets rallied strongly towards the end of the month as Greece passed new austerity measures and averted a potential default. Strong domestic manufacturing data helped the S&P 500 Index wrap up the week ending July 1st with a 5.67% gain, the biggest weekly gain since July 2009.

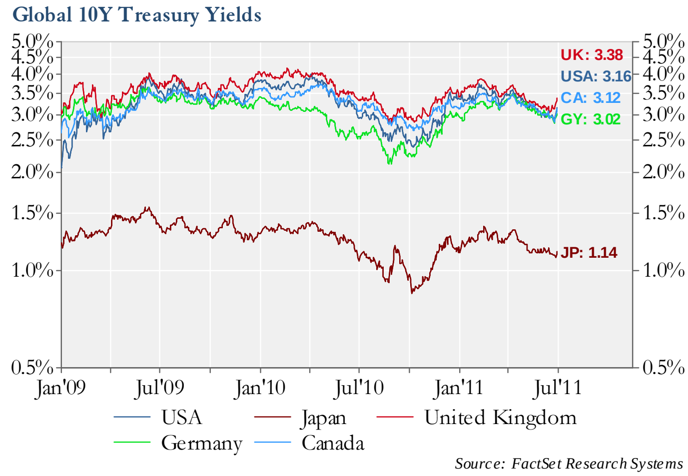
The S&P 500 Total Return Index fell 1.67% in June and is up 6.02% for the year. Small cap stocks underperformed large and mid-cap stocks in June. The Russell 2000 Index declined 2.31%, while the S&P Mid-Cap slid 2.04%.

Measured in US Dollars, the MSCI World Index fell 1.54% in June. The Index is up 5.62% year-to-date through June 2011. The MSCI EAFE lost 1.23% while the MSCI Emerging Markets declined 1.50% last month. Measured in respective local currencies, the FTSE 100 and STOXX 600 lost 0.40% and 2.71% respectively. Year to date, FTSE 100 is up 2.7% while STOXX 600 is up 1.06%.

Bond Markets

Greek sovereign debt concerns and weak economic data helped Treasuries rally during most of the month. The U.S. 10 year benchmark yields fell below 3% for the first time since the beginning of December, 2010 and stayed there for most of the month. Yields reached 2.84% on June 24th, the lowest level in 2011. Treasuries retreated sharply during the last four days of the month as risk appetite increased and Greece succeeded in staving off a default, at least for now. The month of June also marked the end of the $600 billion Treasury purchase program.

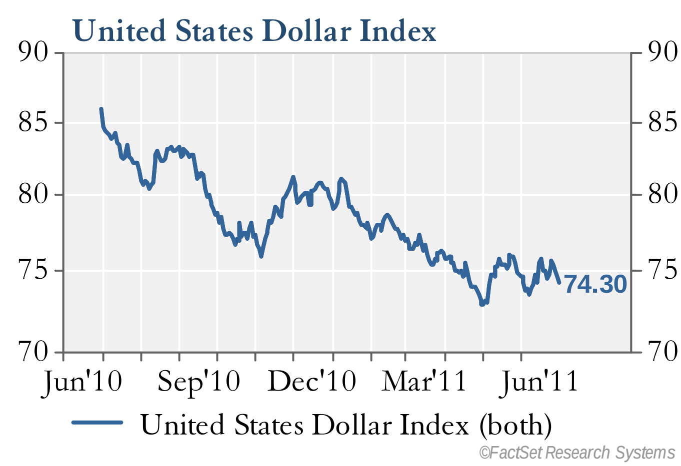
The U.S. bond market, as measured by the Barclays Capital U.S. Aggregate Index, declined 0.29% in June and is up 2.72% for the year. The U.S. Benchmark 10 year yields rose 10 bps in June, to close at 3.16%. Two year note yields were flat during the same period, closing at 0.46%.



The yield on the German 10 Year Bund was flat and closed at 3.02% for June. The UK 10 Year GILT yield rose 20 bps for the month, closing at 3.38%.

Currency

The US Dollar Index had a mixed month, gaining most of the month but ultimately losing 0.45% against a basket of six major currencies in June. The index is down 5.98% for the year. The Euro defied the bears to gain 0.5% against the US Dollar as Greece passed the austerity measures. The European Central Bank's announcement that a "strong vigilance [against inflation] is warranted" led the markets to believe that an interest rate hike is imminent. The British Pound depreciated 2.57% versus the US Dollar as the Bank of England reinforced its commitment to keep the interest rates low. The Euro closed at 1.4499 USD and the British Pound closed at 1.6046 USD for June.



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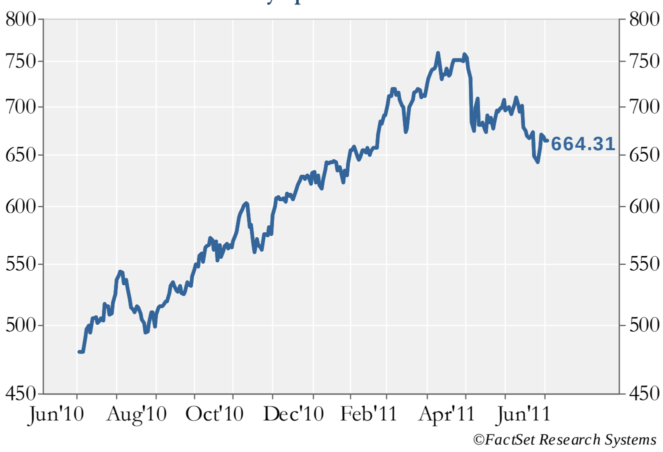
Commodity Markets

Commodity prices continued to face downward pressure in June on fears over a slowing economic growth. The S&P GSCI Index declined 5.31% in June after a 6.89% decline in May. The Index is up 2.71% in 2011. The Dow Jones UBS Commodity Index lost 5.04% in June and is down 2.6% for the year.

Wheat and Corn tumbled 21% and 17% respectively in June, as Russia prepared to lift ban on wheat exports and the U.S. Department of Agriculture report surprised the markets with higher estimates for planting and inventories of Corn.

S&P GSCI Commodity Spot Index



Slowing economic recovery caused Crude Oil (NYM $/bbl) to decline 7.09% in June after a 9.86% decline in May. On June 23rd, the International Energy Agency announced the release of 60 million barrels of oil over 30 days in response to the ongoing disruption of oil supplies from Libya. Crude oil, which had already declined 7.1% for the month, tumbled another 4.6% that day. However, the commodity recouped these losses by the end of the month on stockpile figures and the situation in Europe.

WTI Crude Oil Spot Price ($/barrel)

Gold futures lost 2.21% in June, but are up 5.73% for the year, closing at 1,502.80 $ per ounce. Silver continued the recent down trend losing 9.07% in June - after losing 21% in May. Spot Silver closed at 34.83 $ per troy ounce.

Sugar was one of the few commodities to rally in June on supply concerns from Brazil. Speculation of a poor crop yield and shipping delays at ports combined to push the prices of the sweet commodity.