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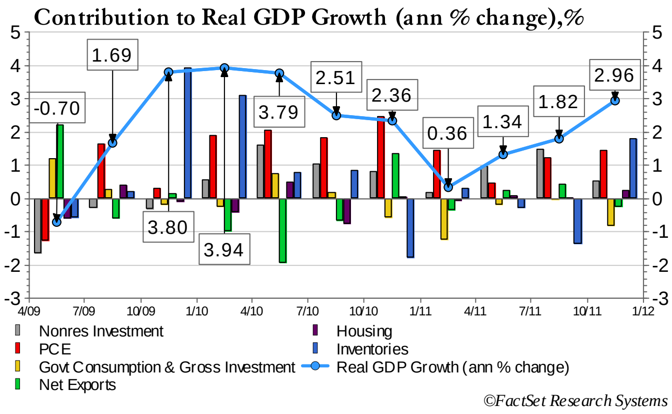
Market Review

March 2012

Economic Review

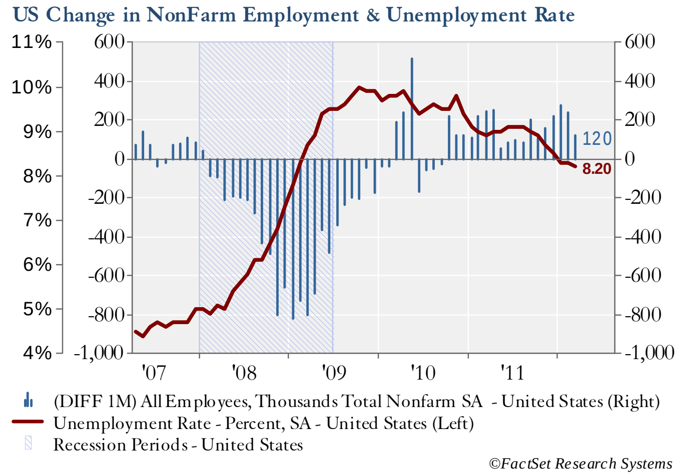
U.S. fourth quarter real GDP was left unrevised at +3%, according to the third and final estimate of Bureau of Economic Analysis. This is the strongest growth in six quarters.



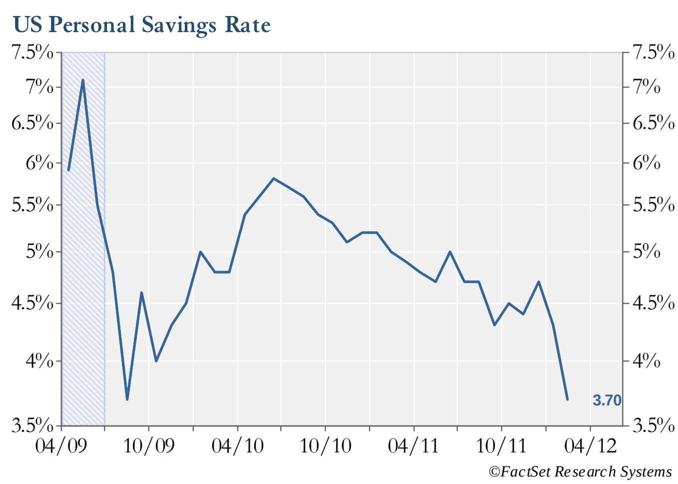
The headline Consumer Price Index (CPI), boosted by an increase in gasoline prices, increased 0.4% in February from a month earlier and the annual rate held steady at 2.9%. The February core CPI increased 0.1% from a month earlier and the twelve month decreased slightly to 2.2%.

The S&P Case-Shiller Index fell 0.8% for the month of January and is near its lowest level since early 2003. The Index fell -3.8% from a year ago. Existing home sales decreased 0.9% in February and increased 8.8% from a year ago. New home sales dropped to a 1.6% m/m growth rate in February.

After three consecutive months of 200,000 job gains, the economy added only 120,000 new jobs last month according to the Bureau of Labor Statistics. This was significantly below the consensus estimate of 210,000. The unemployment rate fell to 8.2% in March, its lowest level in three years, due entirely drop to a drop in labor force participation rate. The household survey reported a 31,000 decline in employment, but 164,000 people left the labor force. The result was a decline in the unemployment rate. The labor force participation rate drifted down to 63.8%, near thirty year lows, as job seekers give up looking for work and are not counted as unemployed. The weekly U.S. unemployment benefit applications dropped to 357,000, a four year low, while the less volatile four week average fell to 361,750, also the lowest in four years.

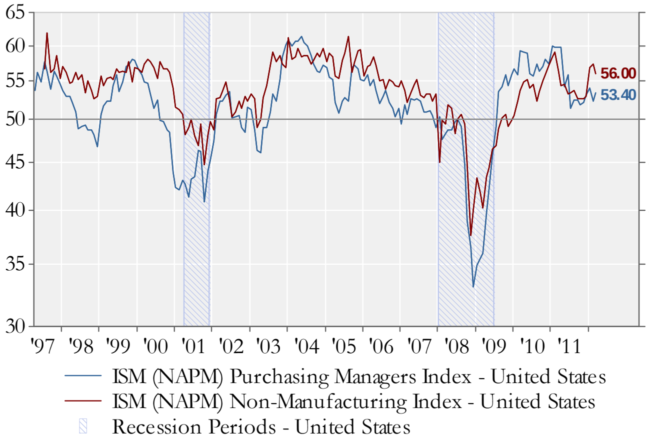


The March Conference Board's Confidence Index declined slightly to 70.2 after a large gain in February. Retail sales increased 1.1% in February from a month ago, the fastest in five months. Year over year retail sales increased 6.5%. Real Disposable Personal Income decreased 0.1% in February, compared with a decrease of 0.2% in January. Consumer spending increased 0.8% in February from prior month, the highest since July 2011. Decreasing income coupled with increased consumer spending in February resulted in a sharp decline in the savings rate to 3.7%, the lowest since August 2009.



The March ISM Manufacturing Index beat estimates and rose to 53.4, from 52.4 in February. This is the 32nd consecutive month of expansion. Production and employment sub-indices were the primary drivers behind the expansion. The March ISM Non-Manufacturing Index grew for the 27th consecutive month by registering 56%. This is 1.3% lower than the twelve month high of 57.3 in February, indicating continued growth at slower rate. A reading above 50 indicates expansion.

ISM Report on Business



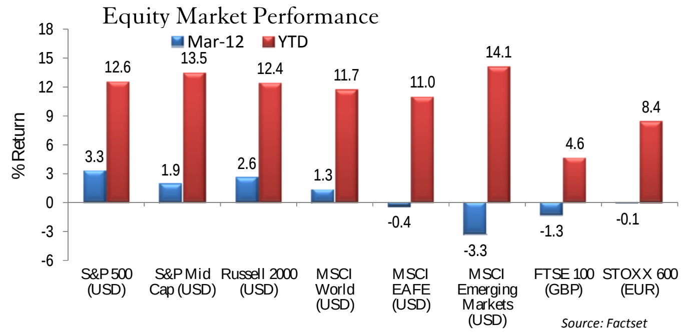
The Federal Reserve kept interest rates steady during the second week of the month and 15 of the 19 largest banks passed the Federal Reserve's stress tests.

Across the Atlantic, the European Central Bank left interest rates at 1%, lowered growth and raised inflation expectations. Greece completed the largest sovereign debt restructuring on record, thus averting default and qualifying the country for a second round of financial assistance. Eighty five percent of Greek bond holders agreed to swap their holdings for bonds worth 70% less on a present value basis. Eurozone real GDP contracted -0.3% q/q during the fourth quarter of 2011. Eurozone PMI data was discouraging - manufacturing PMI decreased 1.3% to 47.7 and services PMI decreased -0.1% to 48, indicating another contraction in Euro area GDP is likely in the first quarter.

The Chinese premier Wen Jiabao declared that China will target a 7.5% GDP growth in 2012, below the previous target of 8%. The HSBC Chinese Manufacturing PMI declined 1.3% to 48.3 in March, indicating weak growth. The Chinese inflation came in below consensus at 3.2% y/y.

Equity Markets

Equity markets were mixed across the globe in March. U.S. equity markets rallied, buoyed by relatively positive domestic economic data and the successful Greece debt restructuring. Led by financial and technology stocks, the S&P 500 was up 12.6% over the past three months, the best first quarter performance since 1998. The European regional bourses performance was mixed in March – measured in their local currencies, German DAX Index gained 1.32%, while the FTSE 100 fell -1.3% and the CAC 40 fell -0.65%. The China Shenzhen Index also declined, falling 6.84% (in local currency) on the reduced growth outlook by government officials.

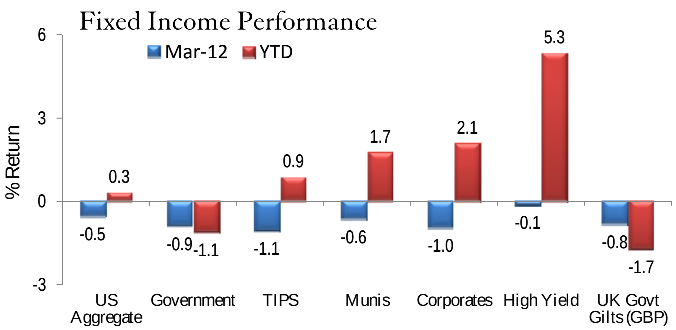


The S&P 500 gained 3.3% during the month of March. The index declined during the initial days of March as high oil prices and disappointing Chinese growth forecasts weighed on market sentiment. These concerns were soon offset by a successful Greek debt deal and positive U.S. employment data. The S&P 500 gained further on stronger retail sales, low weekly initial jobless claims and optimism that the Federal Reserve would maintain easy monetary policy despite the strengthening the U.S. recovery. The S&P 500 broke five consecutive weeks of gain after low PMI numbers from Europe and China caused concerns of slowing economic growth outside U.S. The stock market then registered a decent gain during the final week of March as the S&P 500 rose 0.85%, most of it made early in the week, as comments from the Fed chairman were interpreted as likelihood of further round of stimulus.

Bond Markets

Treasury yields pushed higher across the curve and investment grade credit spreads narrowed in March, in part due to the perception of an easing of euro-zone debt crisis. In addition, the Federal Reserve's acknowledgment of seeing signs of strength in the U.S. economy in its March 13th statement sparked a sell-off in Treasury. However, fears of weakening European and Chinese economies and more cautious statements by Ben Bernanke and other Fed officials later in the month reversed some of the selling pressure.

The Barclays Capital U.S. Aggregate Index declined -0.55% in March and is up +0.3% YTD. Corporate and high yield debt spreads narrowed 7 and 2 bps during March, but monthly total returns were negative as general interest rates moved higher. Treasuries fell -1% for the quarter, the worst quarterly return since fourth quarter of 2010. In contrast, investment grade corporate bonds rose 2.1% and high yield bonds rose 5.3% for the quarter.



Source: Factset

The 10 and 30 year Treasury yields broke out of their four month range with the 10 year yield touching 2.4% and the 30 year yield flirting with 3.5%. For the month, 10-year and 30-year Treasury yields widened 24 basis points each and closed at 2.21% and 3.34%.

The UK 10 Year GILT yield rose 14 bps to close at 2.2% in March. The German 10 Year Bund yield fell 3 bps and closed at 1.79%.

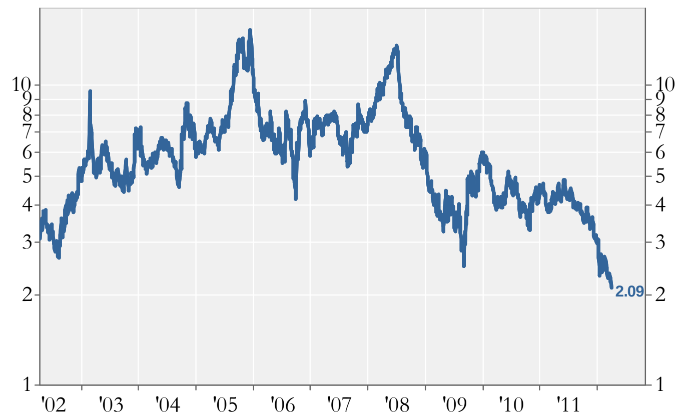
Currency

The US Dollar Index gained 0.3% against a basket of six major trading partners. The Euro depreciated -0.44% against the Dollar and closed the month at 1.3317 USD/EUR. The British Pound was nearly flat against the Dollar and closed at 1.598 USD/GBP.

Commodity Markets

Commodity prices dropped in March as Chinese authorities reduced their growth outlook. The Dow Jones UBS Commodity Index lost -4.14% for the month of March while the energy heavy S&P GSCI Index declined -2.35%. Nineteen of the twenty-four raw materials tracked by S&P GSCI index declined last month. Soybeans, Cotton and Unleaded Gasoline had the strongest gains in March amongst the single commodity indices with returns of 6.29%, 3.41% and 1.63%. Natural Gas, Coffee and Aluminum were amongst the worst performing single commodities, with returns of -22.2%, -10.23% and -9.32% respectively.

Henry Hub Natural Gas - (US$ per MMBtu)



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The S&P GSCI Index is up 5.9% for the year, led by Unleaded Gasoline with a return of 18.6%, while Natural Gas is the worst performing commodity trailing with a year to date loss of -37%.