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Market Review

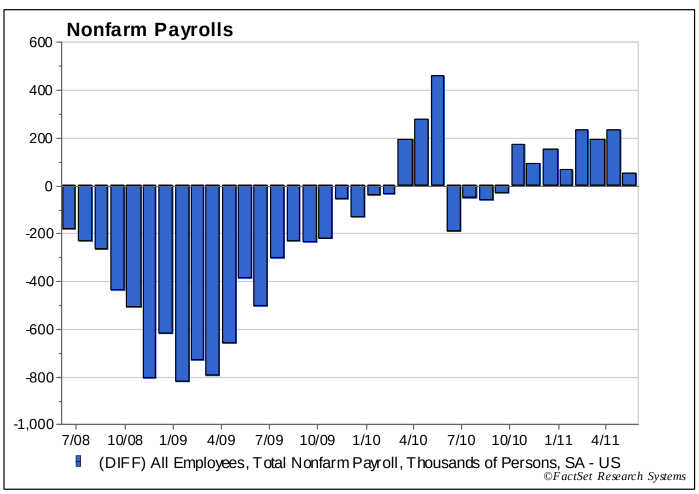
May 2011

The key theme of the month was a flight to safety in light of concerns surrounding the Eurozone sovereign debt crisis and slowing global growth. Risky assets including global equities and commodities fared poorly in May while "safer assets" including domestic treasuries, fixed income and emerging fixed income rallied. The US Dollar, a traditional haven in times of crisis, made significant gains during May.

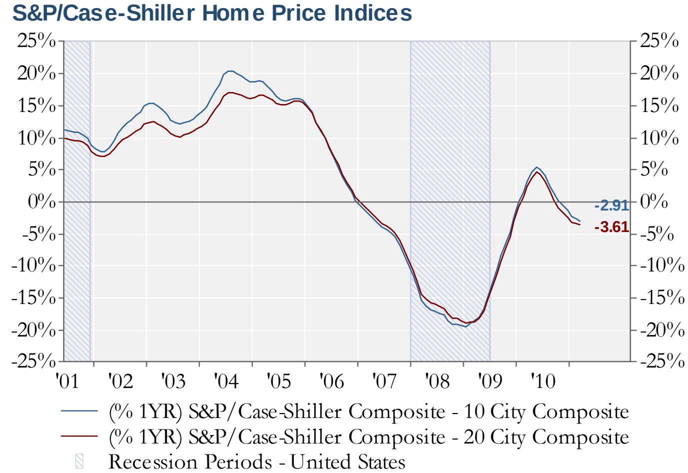
Economic Review

U.S. Real GDP growth for the first quarter of 2011 remained unchanged at 1.8%, below the consensus estimate of 2.2%. Upward revisions to exports, inventory investment and non-residential fixed investment were offset by an upward revision to imports and a downward revision to consumer spending.

The unemployment rate increased from 9% in April to 9.1% in May, as discouraged workers are re-entering the job market. Economists had expected the rate to decrease to 8.9%. According to the Wall Street Journal, the number of people without a job for more than a year represents 33% of the unemployed. Nonfarm payrolls increased an anemic 54,000 last month, the smallest gain since September of last year. The economists surveyed had expected the payrolls to increase 160,000.



The S&P Case-Shiller 20-city home price index declined to 138.16 in March, the lowest value since the housing bubble burst five years ago. The index dropped 3.6% from a year ago and 0.8% from the prior month. The home buyer tax credit helped the index for a brief period after it had bottomed at 139.26 in April 2009. Home sales have collapsed since the tax credits expired last summer. Building permits and Housing starts declined by 4% and 10.6% respectively in April.



According to the Conference Board report, Industrial production was unchanged in April after having increased 0.7 percent in March. Capacity utilization declined 0.1% to 76.9 percent, a rate 3.5% below its average from 1972 to 2010. The Index of Leading Economic Indicators edged down 0.3% in April. This was only the second decline in as many years and the first decline since June 2010, and is primarily attributable to persistently high unemployment.

During the latter half of May, many economists started revising their 2011 GDP growth forecasts downward as high energy and food prices hurt the consumer spending power and as hiring and housing continue to post disappointing numbers.

The news around the globe was fairly negative. Greece dominated the headlines out of Europe. Moody's placed Greece's B1 rating on negative watch, while S&P cut Greek Government's long term bonds to B from BB-. Amid all the debt worries in Eurozone, France and Germany delivered better than expected first quarter GDP growth. Germany first quarter GDP rose 1.5% vs. 0.9% expected and France first quarter GDP rose 1% vs. 0.6 % expected.

Eurozone inflation increased 2.8% y/y in April, the fastest in 20 months. European Central Bank (ECB) policy makers elected to keep the interest rate unchanged. The ECB president Jean Claude Trichets' comment that the central bank will 'monitor very closely' inflationary risks and omission of 'strong vigilance' was taken as a dovish comment by the Market.

Inflation in China rose by 5.3% y/y in April. The country increased the bank reserve requirements for the fifth time this year and the eighth time since October in an effort to curb the inflation. Its neighbor, India, raised its target rate by 50 bps points in order to stabilize inflation expectations.

Fitch cut its view of Japan sovereign credit to negative. Japan's first quarter GDP contracted 3.7% annualized, the second straight quarter of contraction.

Equity Markets

The U.S. equity markets retreated in May amid heightened volatility in commodity markets and a strengthening US Dollar. The equity market suffered as investors showed aversion to risky assets and flocked towards perceived safer assets on continued fears over European peripheral debt crisis.

The S&P 500 Total Return Index dropped 1.13% after rallying for eight continuous months. The Index is up 7.82% YTD. Energy and Financials were the worst performing sectors while Healthcare, Consumer Staples and Utilities were among the best. Small cap stocks underperformed large and mid-cap stocks in May. The Russell 2000 Index declined 1.87% while the S&P Mid-Cap slid 1.35%.

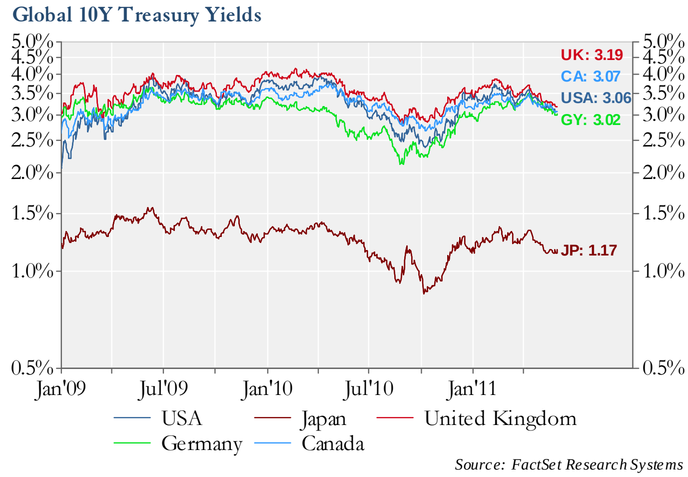
Eurozone sovereign debt and global growth concerns also had its impact on international equity markets. Measured in US Dollars, the MSCI World Index fell 1.97% in May while the MSCI EAFE tumbled 2.81%. Measured in respective local currencies, the FTSE 100 and STOXX 600 lost 0.95% and 0.11% respectively. MSCI Emerging Markets declined 2.58% last month.

Bond Markets

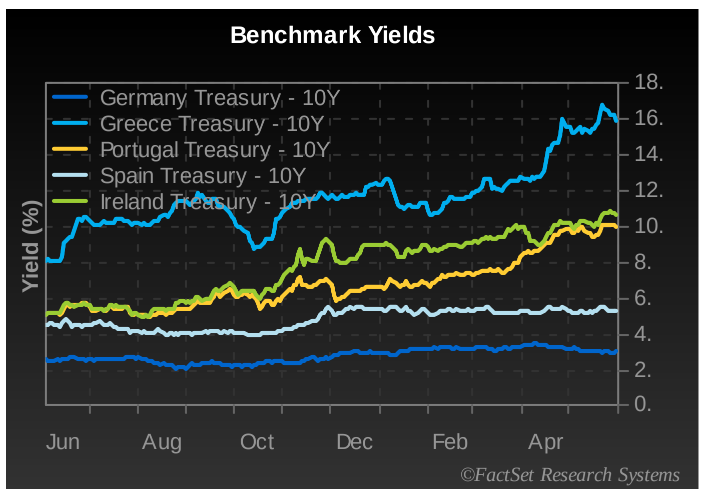
The month of May began with a continuation of April's downward drift in yields buoyed by growth concerns and sell off in the equities and commodities. The treasuries continued to strengthen during the month on concerns over Greece debt and weak economic data. The U.S. bond market, as measured by the Barclays Capital U.S. Aggregate Index, advanced 1.31% in May and is up 3.02% for the year.

The U.S. Benchmark 10 year yields fell 23 bps in May, after losing 18 bps in April to close at 3.06%. This is the lowest level for the year. Two year note yields fell 14 bps during the same period, closing at 0.47%.

The uncertainty in the markets also helped the Germany and UK Government Bonds. The yield on the German 10 Year Bund decreased 22 bps to close at 3.01% for May. The UK 10 Year GILT yield also fell 29 bps for the month, closing at 3.18%.



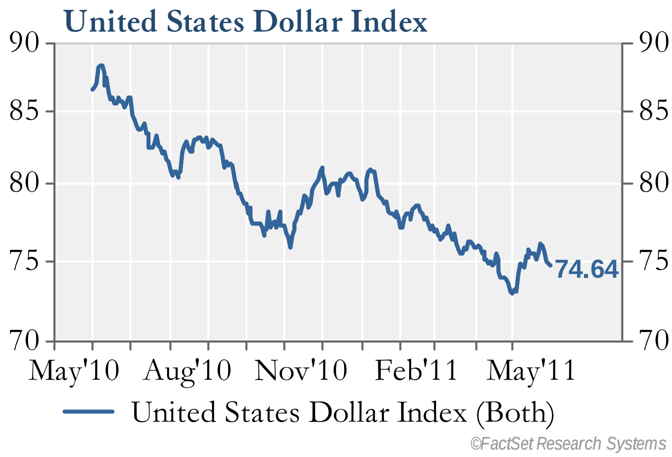
The yield gap between Greek and German 10 year benchmark bonds reached a record 13.77% on May 23rd. Similarly the yield gap between Portuguese and German 10 year benchmark bonds reached a record 7.14% on May 25th. These widening spreads indicate that bond market participants believe defaults are inevitable by several countries with Greece likely being the first. According to a recent report from Moody's investor service, there is a 50% chance that Greece would default on its debt.



Currency

The US Dollar Index made a strong comeback in May. Investors fled risky assets in favor of the greenback as the US quantitative easing draws to a close and continuing concern that Greece might default on its debt. The US Dollar Index gained 2.34% against a basket of six major currencies. The Euro lost 3.1% against the Dollar, ending a five month rally amid the escalating debt woes in the region. The Euro weakened against almost all major currencies except the South African Rand. The British

Pound lost 1.32% but Japanese Yen was nearly flat with the US Dollar. The Euro closed at 1.4376 USD and the British Pound closed at 1.6459 USD for May.

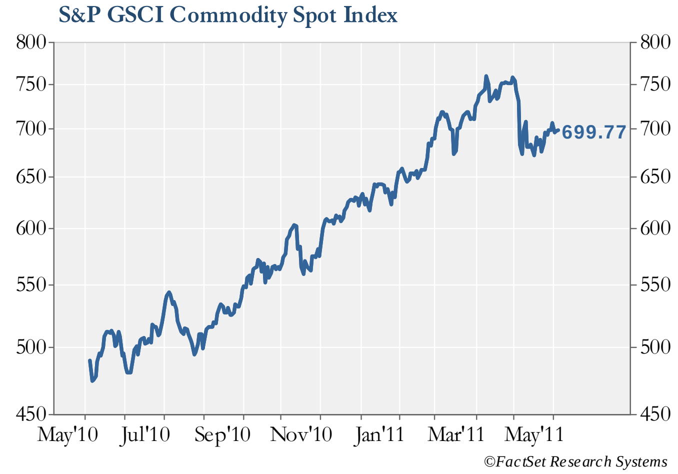


Commodity Markets

Commodities suffered a significant sell off in May triggered by the ongoing Euro sovereign debt crisis and fears that tighter monetary policies in China and Eurozone may cause a slowdown in global growth.

The S&P GSCI Index declined 6.89% in May and is up 8.46% YTD. This is the first monthly decline since August 2010 and the biggest drop since May 2010. Silver, down 21% in May, led the slide among the 24 commodities that make up the index, followed by nickel and crude down 12% and 10% respectively. The Dow Jones UBS Commodity Index lost 5.06% in May and is up 2.6% YTD.

Most commodity indices fell sharply during the first week of May, with S&P GSCI losing 11.18% by May 6th. The commodity markets moved sideways during the middle of the month and made some recovery during the last week.



Gold futures lost 1.26% in May closing at 1,536.80 per ounce. Spot Silver closed the month at $38.31 per troy ounce, losing 21.18% - the biggest one month drop since August 2008 – after making record gains during the prior month.