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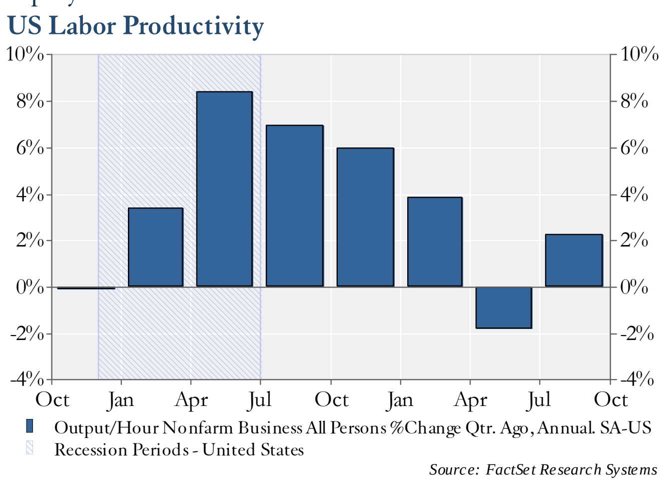
Market Review

November 2010

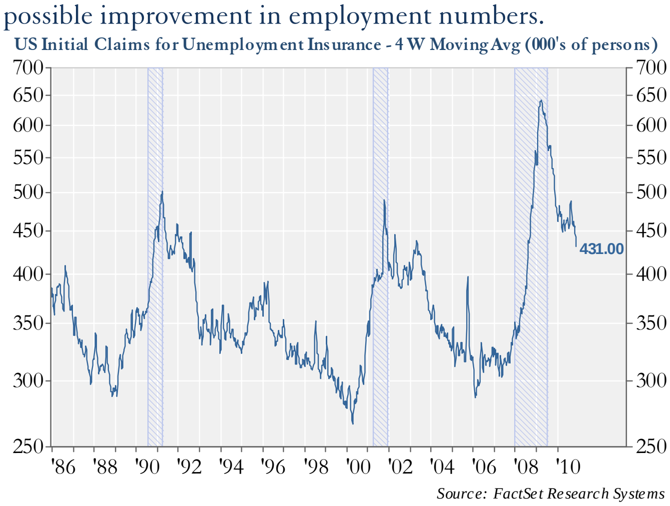
U.S. Economic Data

The U.S. real GDP grew at an annual rate of 2.5% in the third quarter according to the revised (second) estimate. This is higher than the initial estimate of 2% and slightly above the consensus of 2.4%. This falls within our expectations of a soft recovery (*VCG – Outlook – Third Quarter 2010*). The increase can be primarily attributed to an upward revision in consumer spending, net exports and federal government spending. The second quarter GDP grew at 1.72%.

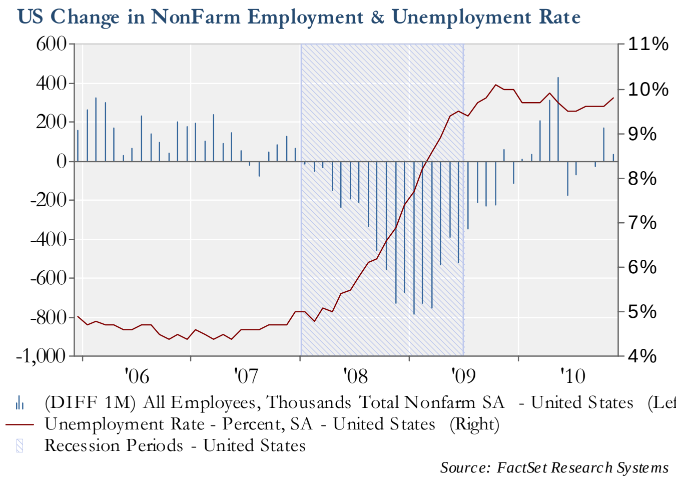
U.S. Labor productivity saw an upward revision as it increased at an annual rate of 2.3% for the third quarter, higher than the 1.9% reported in November and after contracting by 1.8% during the second quarter. This means that corporations are still squeezing more output from employees.



The upward revisions in GDP growth, labor productivity, fewer initial jobless benefits in recent weeks and an encouraging ADP employment survey number indicated a possible improvement in employment numbers.



However, the Department of Labor came out with disappointing employment numbers for November. The economy added just 39,000 jobs and the unemployment number rose to 9.8% last month. This is the highest rate since April 2010. Analysts' consensus forecast a 145,000 jobs increase and an unemployment rate steady at 9.6%.



The leading economic indicators support the view that the economy is improving. The Consumer Confidence index rose to 54.1 in November, compared to 49.9 in October indicating that the U.S. public has a brighter outlook towards the economy. The ISM manufacturing numbers for November came in at 56.6, above the consensus estimate of 56, but slightly below the October numbers of 56.9. The index has remained above 50 for the past 16 months indicating a continued expansion. The non-manufacturing numbers registered 55 in November, higher than 54.3 registered in October, indicating some growth in non-manufacturing as well.

We continue to expect mixed economic numbers in the months ahead.

Equity Markets

Equity markets were flat for the month of November. The markets reacted positively earlier in the month following the widely anticipated quantitative easing program by the Fed. The markets then gave up these gains towards the middle of the month as the focus shifted towards currency and trade issues at the G-20 Summit in South Korea. The Sovereign credit concerns in Europe during the latter half of the month ensured that the market moved sideways.

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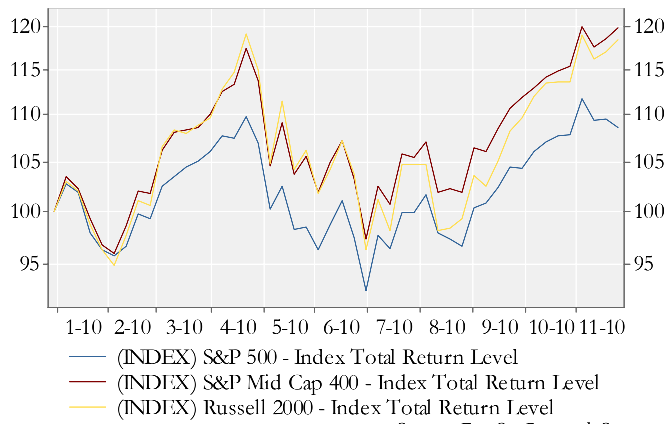
The S&P 500 was virtually flat during the month and is up 7.86% YTD. The small and mid cap stocks continue to outperform the large cap stocks in U.S. The MSCI World index returned -0.28% and MSCI EAFE was down -0.97% in November. The FTSE 100 lost -0.41%, while the STOXX 600 recorded returns of -1.35%. The MSCI Emerging Markets index was down -1.06% in November.

USA Equity Total Return - LCap vs MCap vs SCap



Source: FactSet Research Systems

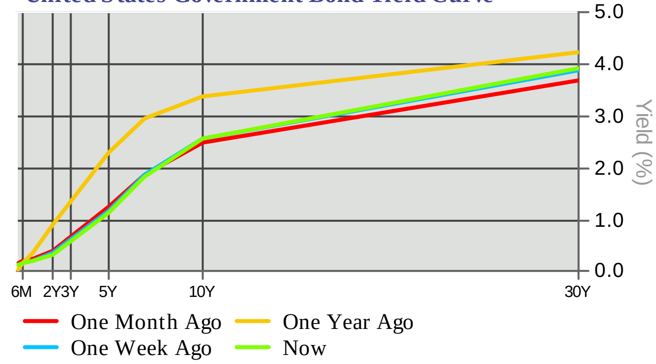
Bond Markets

As widely expected, the FOMC embarked on another round of planned asset purchases. It expects to buy up to $600 billion over the next eight months ($75 billion $/month), in addition to the $35 billion per month in reinvested principal payments. Most of these purchases are concentrated in the 2-10 year maturity range. The Fed expects its actions to help promote increased employment and sustain price stability.

The Fed's actions were criticized both at home and abroad with Germany calling the U.S. policy "clueless" and China urging the U.S. to take a responsible attitude as a major reserve currency issuing country. Meanwhile, PIMCO's Bill Gross declared in his November 2010 outlook that "the Fed's announcement will likely signify the end of a great 30-year bull market in bonds".

The U.S. Benchmark 10 year yields reached a low of 2.48 a day after the FOMC announcement, but moved higher towards the middle of the month, reaching 2.91 on Nov 15 and closed the month at 2.795. As a result, the bond prices dropped.

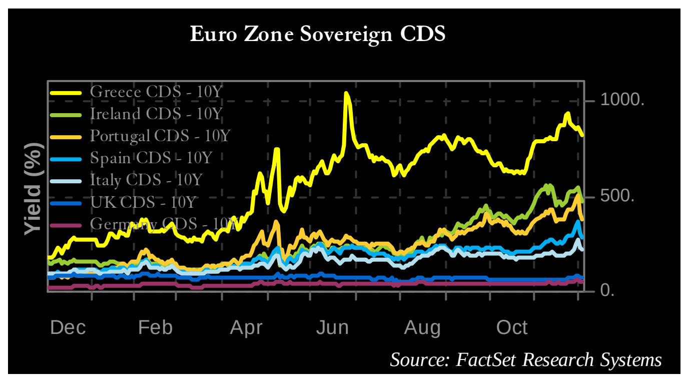
United States Government Bond Yield Curve



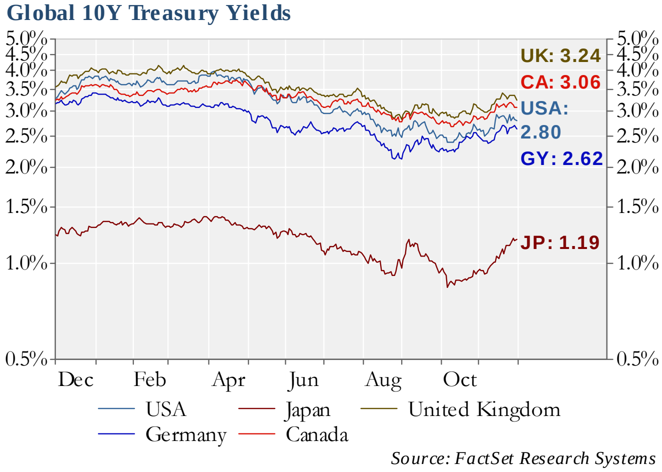
Source: Tullett Prebon Info.

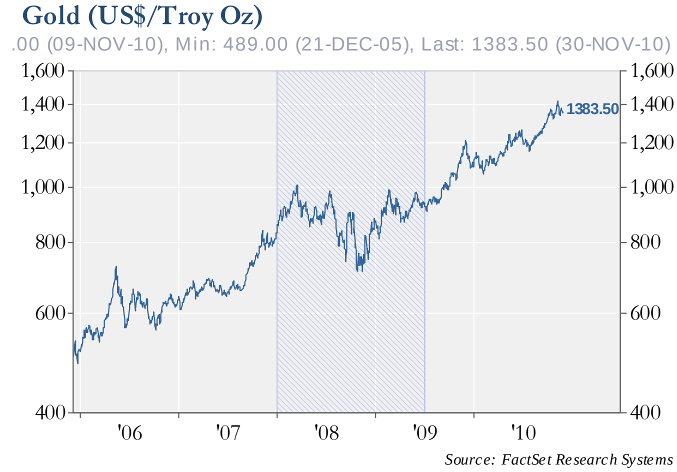
On the other side of the pond, Europe unveiled an 85 billion € ($113 billion) bailout package for Ireland to stave off a sovereign debt crisis that threatens to engulf the entire euro-zone. The money will be used to stabilize the Irish banks and help fund the government operations.

The cost of insuring the sovereign debt of Ireland & other euro-zone countries has dropped over the last few days as central banks bought Ireland's bonds.



The German 10 Year Bund yield rose by nearly 11 bps to close at 2.62%. The UK 10 Year & 30 Year GILT yields also increased closing at 3.24% and 4.24% respectively, while the U.S. Bond market (as represented by the Barclays Capital U.S. Aggregate Index) returned -0.57% last month.





Currency

Whenever the market faces macroeconomic or geopolitical uncertainty, investors search for safer havens. During such times, the U.S. dollar usually appreciates vs. the international basket of currencies. The month of November was no exception as it saw a mix of both - tensions rising in Korean peninsula and Ireland applying for the bailout package. This resulted in the dollar index rising nearly 5% against the broad basket of currencies. The Euro depreciated 6.81% and the British Pound depreciated 2.92% vs. the USD respectively. The Japanese Yen is trading close to a 15 year high and the Australian dollar is close to a 28 year high vs. the USD.

Commodity Markets

The commodity markets were volatile in November. Similar to the equity markets, the commodity markets reacted strongly during the first half of the month after the Fed announced its plan to purchase $600 billion of Treasury securities. Gold crossed $1,400/oz on Nov 8, 2010, but as the focus shifted towards the G-20 Summit, Gold lost some of the shine to reach a low of $1,332. The credit crisis in Ireland later helped the precious metal rebound and close the month at $1,386.1, up +2.1%. Silver registered yet another double digit month, returning nearly 15% in November.

Crude oil reached a two year high, trading above 89$ as new forecasts suggested an increase in the global demand of oil. Softs however were down in November. Corn and Sugar were down nearly 6% and Wheat fell 3%.