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Market Review

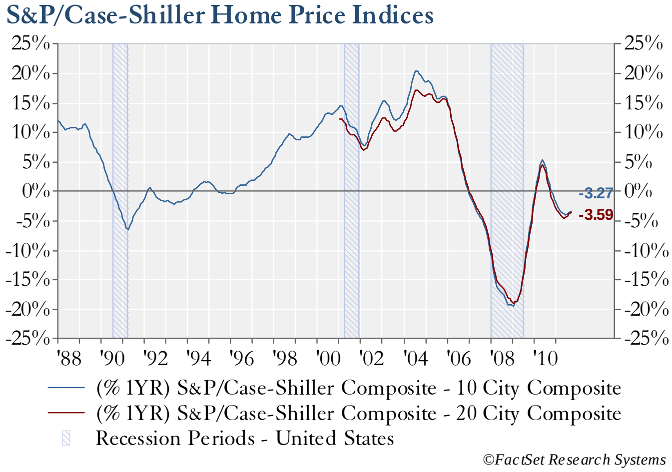
November 2011

Economic Review

The third quarter real gross domestic product was revised to a 2.0% annualized, down from the initial estimate of 2.5% and below the consensus of 2.4%, according to the second estimate released by the Bureau of Economic Analysis. The downward revision was primarily driven by a decline in inventories.

October pending homes sales increased 10.4% from September as housing prices continue to decline. The S&P/Case-Shiller Home Price Index declined in September on both a monthly and an annual basis. The 20 city home price index declined 0.6% from August and fell 3.6% from a year ago. Building permits rose 9.3% while housing starts fell less than the forecast -0.3% decline to 628,000 last month.

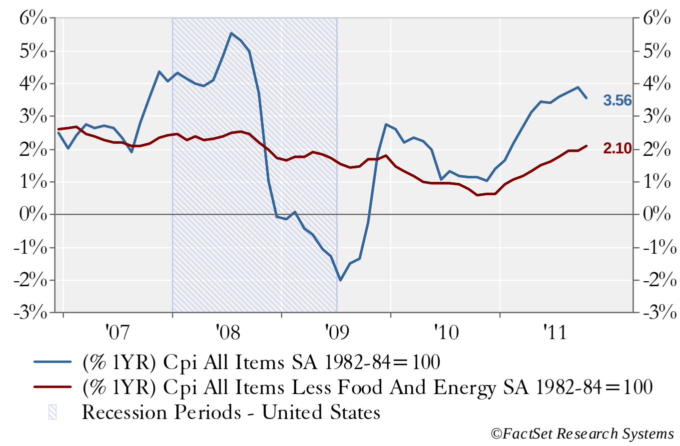
S&P/Case-Shiller Home Price Indices



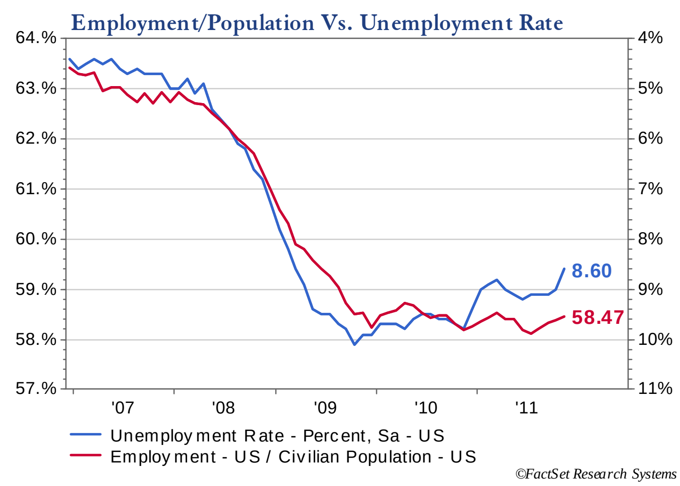
The index of U.S. leading economic indicators increased 0.9% in October led by an increase in building permits, October's stock market rally and the spread between short term and long term interest rates. The index of coincident indicators, a gauge of current economic activity, climbed 0.2%. The index of lagging indicators increased 0.6%.

The Conference Board Consumer Confidence Index increased 15.1% to 56 in November (1985=100). Industrial Production expanded 0.7% in October, above the consensus of a 0.4% rise while Capacity utilization increased to 77.8%. The November Institute of Supply Management (ISM) Manufacturing Index came in at 52.7%, up from 50.8% in October indicating an expansion for the 28th consecutive month. The ISM Non-manufacturing index also expanded for the 24th consecutive month but came in at 52, down from 52.9 in October. A value above 50 indicates an expansion. October Headline CPI dropped 0.1% versus a month ago but increased 3.5% versus a year ago. Core CPI increased 0.1% in October while the yearly rate was 2.1% in October.

US Consumer Price Inflation



The U.S. added 120,000 jobs in November, slightly lower than expected. Of these new jobs, 50,000 came from the retail sector which included employees added for the holiday season. In spite of adding only 120,000 jobs, the November unemployment rate fell to 8.6% from 9.0%, the lowest since February 2009. More than half of that drop was due to a decline in labor force as workers retired or simply gave up looking for a job as their unemployment insurance benefits got exhausted. The employment/population ratio, immune to these shifts in labor force participation, has increased modest 9 bps in November and has trended sideways over the last two years.



The twelve member congressional super-committee failed to reach an agreement on reducing the budget deficit by $1.2 trillion over 10 years. Starting in 2013, these savings would now be achieved through automatic cuts to defense and domestic programs. The super-committee failure now draws into question the fate of payroll tax cuts and long-term unemployment benefits which are scheduled to expire by year end.

In Europe, the ongoing financial crisis forced new technocratic governments to be formed in Greece and Italy. Despite bond-buying by the European Central Bank, yields on Italian and Spanish sovereign debt crossed 7%. Even France and Germany showed signs of weakness as investors were reluctant to lend money to Europe. Moody's warned that rapid escalation of debt panic threatened all of Europe's sovereign credit rating, while S&P warned that credit ratings in the euro-zone could come under renewed pressure if large parts of the currency bloc slip back into recession. Fitch cut Portugal's credit rating to junk status citing the country's rising debt level and weakening economy.

On the last day of the month, major central banks led by the Federal Reserve launched a coordinated action to slash the cost of accessing the US Dollar via swap lines by 50 bps. Hours before the coordinated effort, the People's Bank of China cut reserve requirements by 50 bps to 21 percent for commercial lenders for the first time in three years. This would free funds that could be used for lending to shore up an economy running at its weakest pace since 2009. The Chinese Purchasing Managers Index fell to a 32-month low of 49 in November.

Equity Markets

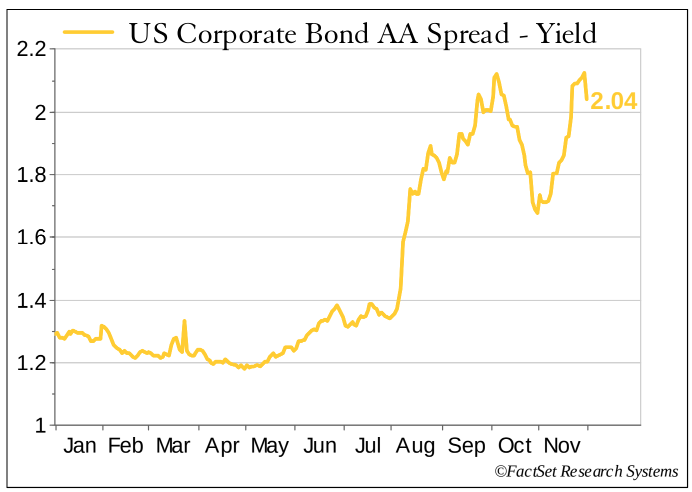
The S&P 500 Index monthly return of -0.22% masks the volatility experienced by the equity markets during November.

At the beginning of the month, equity markets declined amid heightened uncertainty following the announcement of a Greek referendum and confidence vote and the MF Global bankruptcy. Leaders in Greece & Italy stepped down the following week as Italian bond yields moved to unsustainable levels. The S&P 500 had declined 3.66% on November 9th over concerns that Italy would be the next country to need a bailout. Equity markets continued to be under pressure for most of the remaining month as French, Italian and Spanish yields moved higher. The S&P 500 printed negative returns for seven consecutive days, reaching -7.34% for the month as of November 25th. In dramatic contrast, hope for a credible plan in Europe, an unexpected surge in U.S. consumer confidence and coordinated action by central banks reversed the negative trend in equities. The S&P 500 rallied 7.69% during the final three days of the month, including a gain of 4.35% on the final day.

Defensive sectors including utilities, staples and healthcare outperformed in November reflecting the preference for yield and safety. The Russell 2000 Index was slightly lower at -0.34% for the month and is down -4.80% for the year. The S&P Midcap Index fell -0.30% and has lost-1.36% for the year. A strong Dollar hurt foreign equities. Measured in US Dollars, the MSCI World Index declined -2.38% in November and is down -5% for the year. The MSCI EAFE Index dropped -4.83% bringing the year's loss to -10.9%. Emerging markets continue to be a hostage to global risk aversion. The MSCI Emerging Markets declined -6.66% and is down -17.18% for the year. Measured in their local currencies, the FTSE 100 and STOXX 600 indices lost -0.15% and -1.11% respectively. In 2011, the FTSE 100 has declined -3.39%, while the STOXX 600 has fallen -10.33%.

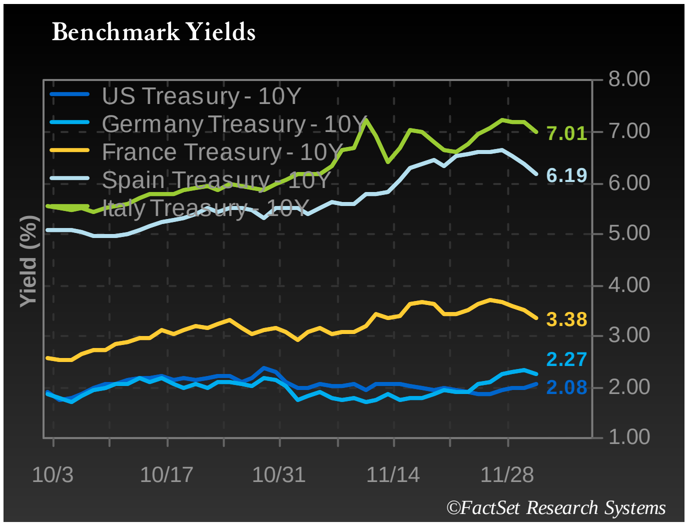
Bond Markets

Corporate bonds lagged and the spread widened as the risk off trade dominated the month. The U.S. bond market, as measured by the Barclays Capital U.S. Aggregate Index, fell a modest -0.09% in November and is up 6.67% for the year.



Treasury yields edged down in November, but moved up towards the end of the month. The 10-year Treasury yields decreased 3.5 basis points to close at 2.075%, while 30-year Treasury yields decreased 7 bps to close at 3.06%. The Barclays Capital U.S. Aggregate Government Treasury Index climbed 0.75% in November and is up 8.76% for the year. Corporate debt spreads widened, with Barclays Capital U.S. Corporate Credit and U.S. High-Yield Index declining -1.96% and -2.16% respectively. U.S. corporate bond AA spreads widened 36 bps to close at 2.04 in November.

The UK 10 Year GILT yield edged lower by 14 basis points to close at 2.14%. Unlike the U.S. and U.K. Treasuries, the yield on the German 10 Year Bunds increased 25 bps during November, to close at 2.27%.



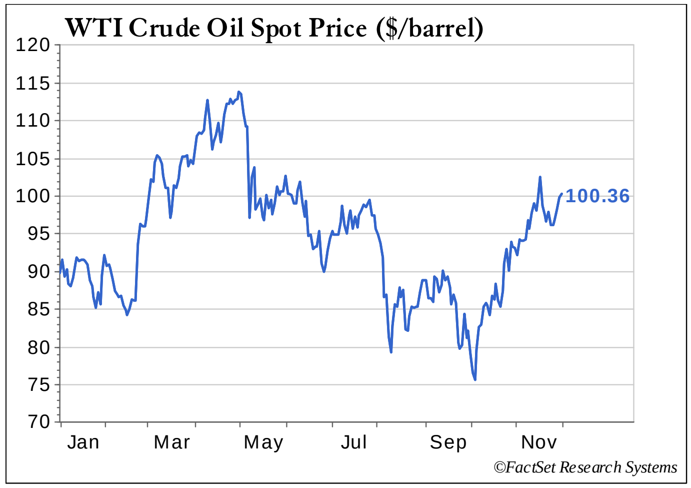
Currency

The US Dollar Index, used to track the US Dollar against a basket of six currencies, gained 2.91% in November trimming the yearly loss to -0.81%. Euro depreciated 3.51% and fell from 1.395 to 1.346 against the U.S. dollar as investors grew anxious about its future. The Pound depreciated 2.56% to close at 1.5728 USD/GBP in November.

Commodity Markets

Almost all commodities declined as investors grew concerned that the Europe's debt crisis could slow economic growth and reduce demand for raw materials. The Dow Jones UBS Commodity Index declined 2.22%, while the energy heavy S&P GSCI Commodity Index rallied 1.42% as Crude Oil prices increased in spite of a strengthening US Dollar.

Crude Oil, Orange Juice and Zinc were among the best performing commodities in November with returns of 7.8%, 3.99% and 3.81% respectively. Rising tensions between Iran and western countries caused the spike in crude oil prices. Declining inventories and a rise in U.S. exports led to the increase in Orange Juice prices.



Gold increased 1.32% to close at $1750.3/oz. Cocoa, Natural Gas and Cotton were among the worst performing commodities with returns of -15.85%, -12.21% and -10.81% respectively. Cocoa prices fell on signs of increased supplies from Ivory Coast and Ghana, the world's two biggest producers. Natural Gas prices suffered as a result of limited demand due to mild weather in key consumption areas in the U.S.