MONTHLY ECONOMIC UPDATE

INVESTMENT NEWSLETTER / NOVEMBER 2011

November Summary

The month of November was highly eventful from both macroeconomic and policy perspectives. The period contained a number of interesting outcomes, many of which were polar opposites of initial expectations. The call for a Greek bailout referendum was retracted within days. The Congressional Supercommittee, tasked to identify $1.2 trillion in deficit cuts, delivered zero. Emerging markets, until recently focused on fighting inflation, almost universally reversed course to stimulate economic growth. Initial great hopes of dramatically increasing the size of the European bailout fund (the EFSF) were dashed by month-end. Eurozone bond issuance, previously a somewhat unlikely alternative, is now the front runner of policy options for the eurozone. The crisis, originally contained to peripheral European nations, hit the core of Europe. Italian and Spanish yields spiked to unsustainable levels and French rates rose to unprecedented spreads over comparable German debt. Germany itself, the bastion of European economic strength and stability, had an unnerving bond auction failure resulting in its own yields rising above those of England! Lastly, in what felt like an exclamation point to a crazy, unpredictable month, major central banks announced decisive coordinated action to help ease financial strains - markets surged on this news. Evaluated through the lens of these events, it is little wonder why the capital markets were erratic, volatile, unpredictable, and, well, schizophrenic.

Closer to home, U.S. macroeconomic developments were largely positive. Employment improved marginally, trade flows have trended favorably in recent months, consumer sentiment picked up, manufacturing continues to grow, inflationary pressures eased a tad, and retail sales have been solid. On that note, Black Friday and Cyber Monday sales were estimated to have risen by 6.6% and 18%, respectively.

November's Economic Releases

General	**Prior**	**Current**
GDP growth	1.3% (Q2)	2.0% (Q3)
Trade balance	-$44.9 B (Aug)	-$43.1 B (Sep)
Employment	**Prior**	**Current**
Initial jobless claims	396,000	402,000
Continuing claims	3.7 MM	3.7 MM
Nonfarm payrolls	100,000 (Oct)	120,000 (Nov)
Unemployment rate	9.0% (Oct)	8.6% (Nov)
Average weekly hours	34.3 (Oct)	34.3 (Nov)
Consumer	**Prior**	**Current**
Consumer confidence index (Conf. Board)	40.9 (Oct)	56.0 (Nov)
Retail sales growth (YoY)	7.4 % (Sep)	5.6% (Oct)
Consumer credit	-$9.7 B (Aug)	$7.4 B (Sep)
Manufacturing & Service	**Prior**	**Current**
ISM manufacturing index	50.8 (Oct)	52.7 (Nov)
ISM non-manufacturing index	53.0 (Sep)	52.9 (Oct)
Durable goods orders growth	-1.5% (Sep)	-0.7% (Oct)
Industrial production growth	-0.1% (Sep)	0.7% (Oct)
Capacity utilization	77.3% (Sep)	77.8% (Oct)
Real Estate	**Prior**	**Current**
New home sales	303,000 (Sep)	307,000 (Oct)
Existing home sales	4.9 MM (Sep)	5.0 MM (Oct)
Case-Shiller home price index (YoY)	-3.8% (Aug)	-3.6% (Sep)
Inflation	**Prior**	**Current**
Consumer price index/Core (YoY growth)	3.9%/2.0% (Sep)	3.5%/2.1% (Oct)
Producer price index/Core (YoY growth)	6.9%/2.5% (Sep)	5.9%/2.8% (Oct)

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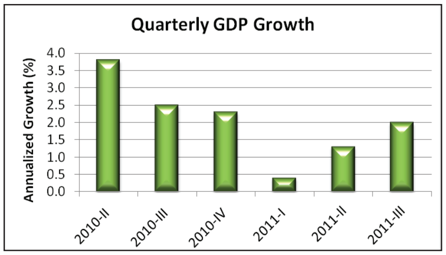
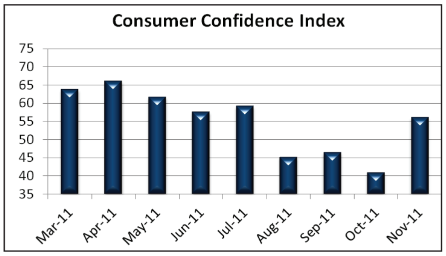
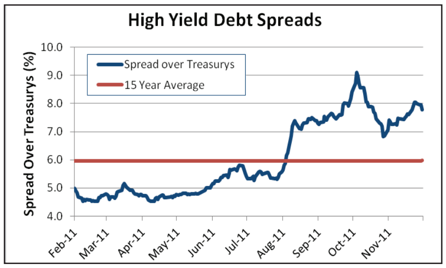


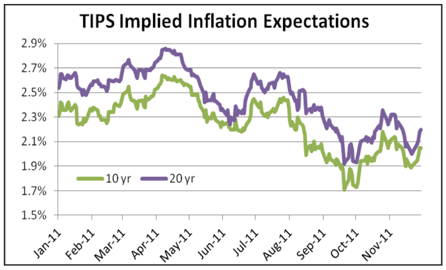
Data Source: U.S. Bureau of Economic Analysis



Data Source: The Conference Board



Data Source: Bank of America Merrill Lynch



Data Source: U.S. Department of the Treasury

Market Returns

The S&P 500 lost 0.2% for the month and is now up 1.1% for the year. Internationally, the MSCI All Country World index (excluding U.S.) dropped 5.2% in November with emerging markets notably weak. Year-to-date, international equity markets have lost 13.3%. Dollar movement this year has helped developed market returns modestly while hindering emerging market returns materially.

In the fixed income market, the Barclays U.S. Aggregate index was down 0.1% for the month and the 10-year U.S. Treasury bond ended with a yield of 2.08%, little changed for the month and down 122 bps for the year. Inflation expectations have gradually trended down this year and high yield debt spreads widened in November to give back half of October's 134 bps rally. Year-to-date, the Barclays U.S. Aggregate is up 6.7%. Commodities dropped 2.2% this month and are now down 9.9% year-to-date while publicly traded REITs lost 3.7% to bring their gain this year to only 1.9%.

Disclaimers

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