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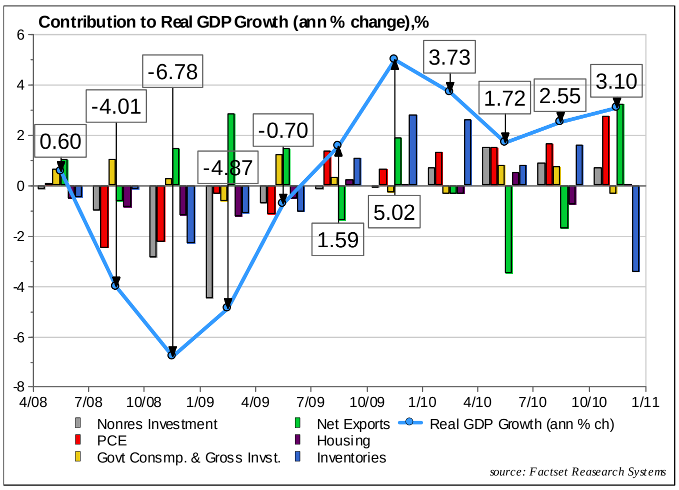
Market Review

March 2011

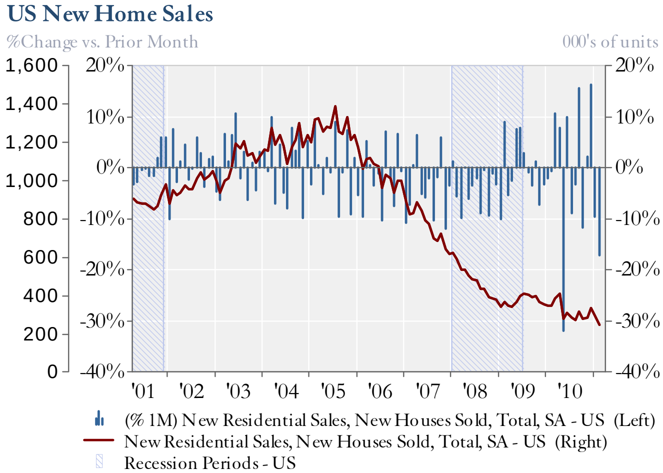
U.S. Economic Data

The 2010 fourth quarter Real GDP in the U.S. was revised upward to an annual rate of 3.1%, according to the third and final estimate released by BEA. The increase was primarily due to a greater than previously estimated rise in private inventories. The Real GDP growth rate for all of 2010 is 2.9%.



Housing continues to face headwinds. February existing home sales fell 9.6% to 4.88 million units on an annualized basis. New home sales fell 16.9% to reach a new low of 0.25 million units annualized. Housing starts fell 22.5% to a record low of 0.48 million units annualized. The January S&P/Case-Shiller 10 city and 20 city composite home price indices dipped 0.9% and 1% respectively. This is the sixth consecutive monthly decline, indicating that the housing market continues to be weak.

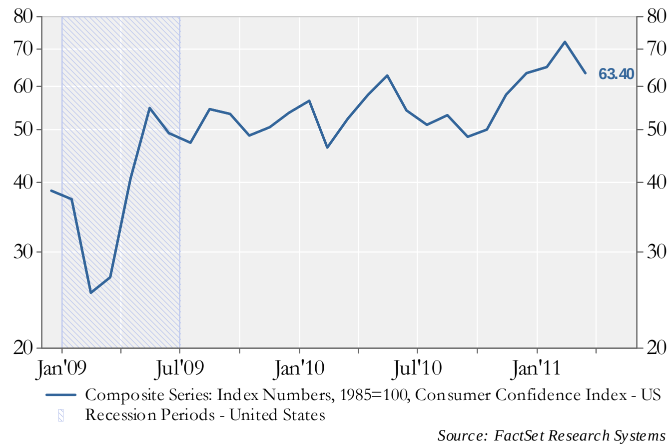
US New Home Sales



The unemployment rate dropped 0.6% during the quarter, from 9.4% in December to 8.8% in March. This is the lowest rate since March 2009. The nonfarm payrolls increased by 216K, well above the consensus estimate of 192,000.

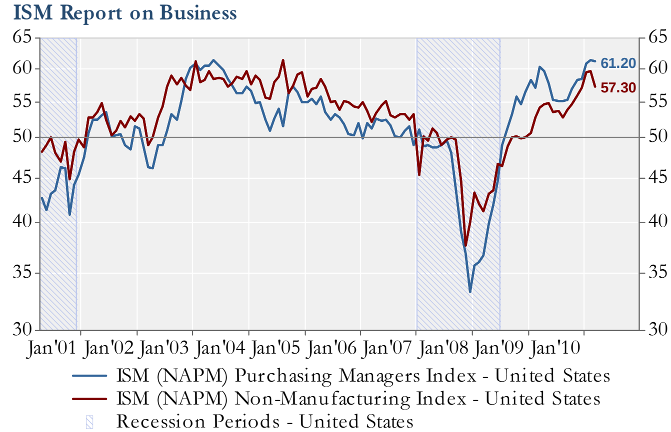
The crisis in Japan and the Middle East and the brief fall in equity markets were reflected in the Conference Board's consumer confidence as it fell more than forecasted in March to a three month low of 63.4 from 72 in February.

US Consumer Confidence



The ISM Purchasing Managers Index decreased to 61.2 from 61.4 in February, but remains near a six year high. Though the rate of growth has moderated, it is still one of the strongest growth rates in recent times. The ISM Non-Manufacturing Index dipped to 57.3 from 59.7 in February.

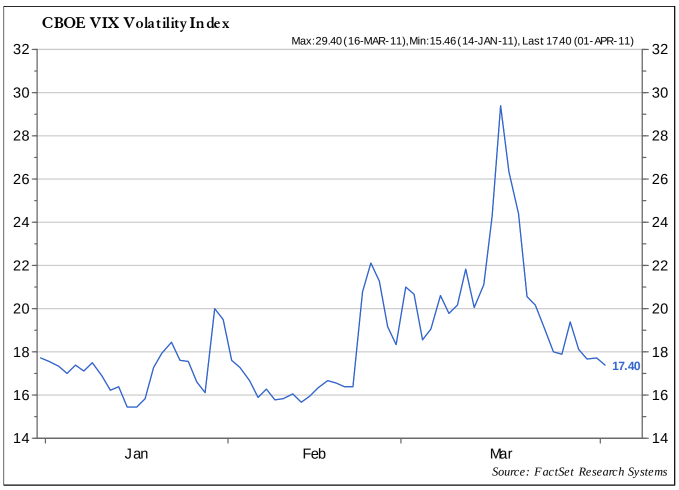
ISM Report on Business



Equity Markets

Markets faced several major obstacles during the first quarter of 2011 including unrest in the Middle East, a continuing sovereign debt crisis in Europe, rising food and energy prices and the devastating earthquake, tsunami and subsequent nuclear crisis in Japan. All of these factors combined made the first quarter volatile, yet the equity markets proved to be resilient to these shocks and delivered a strong performance for the quarter.

Market Volatility (as measured by the VIX index) reached a high of 31.28 on March 16th as the crisis in Japan sent the U.S. markets sharply lower. The S&P 500 lost more than 5% by mid-month before a late-March rally returned the index to just below its February high. The S&P 500 was flat for March and up 5.92% for the first quarter of 2011.



Small cap stocks outperformed large and mid-cap stocks for the month and the quarter. The Russell 2000 index rose 2.59% in March and 7.94% during the first quarter. The S&P Mid-Cap climbed 2.45% and 7.63% during those respective periods.

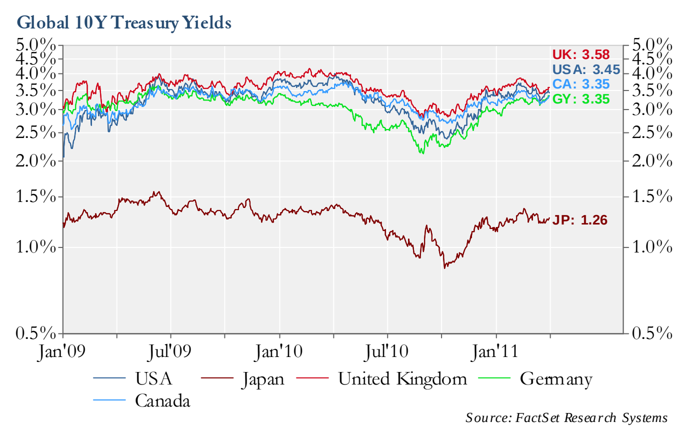
The MSCI World Index lost 1.23% in March, paring its quarterly advance to 3.93%. The MSCI EAFE was down 2.82% last month and up 1.07% for the quarter. The FTSE 100 was little changed in the quarter, as was the STOXX 600 index. After struggling the first two months of the year, the MSCI Emerging Markets Index recovered well in March, rising 4.31%, but remained flat for the quarter.

Bond Markets

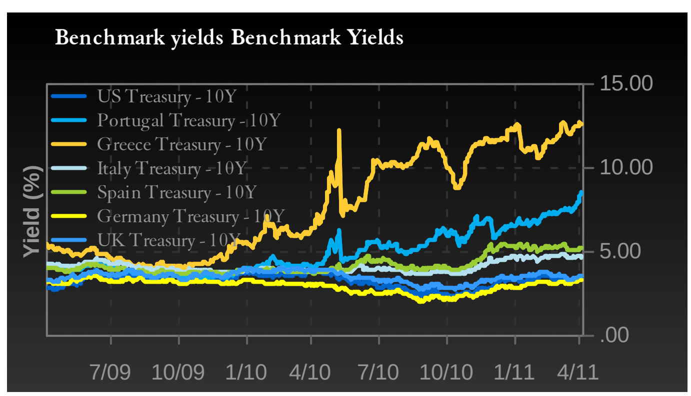
The bond market's performance was less impressive reflecting the continued sovereign debt crisis and rising inflation expectations during the quarter. The U.S. bond market (as represented by the Barclays Capital U.S. Aggregate Index) was flat for the second consecutive month and returned 0.42% over the quarter. Inflation linked treasuries (Barclays US TIPS Index) rose nearly 1% in March and 2.08% over the quarter. High-yield corporate bond funds were up nearly 3.5% during the previous three months, reflecting the signs of economic improvement and upward trend of equity markets.

The U.S. Benchmark 10 year yields rose slightly to close at 3.45% in March. The yields fell sharply from 3.72% on February 8th to 3.21% on March 16th in the face of back to back crises in the Middle East and Japan. The yields rose once again towards the end of the quarter as markets got a picture of the Federal Reserve members' thinking and also embraced a "risk back on" trade as Japan tries to rebuild. The U.S. Benchmark 30 year yields rose slightly to close at 4.51%. The looming end of QE2, the debt issues in Europe and the fear of inflation driven by commodity prices will likely keep volatility above normal in interest rates.

The yield on the German 10 Year Bund increased 17 bps to close at 3.35% for March. The UK 10 Year GILT yield was flat for the month, closing at 3.58%. The 30 year UK Treasury lost 8 bps to close the month at 4.367%.



The Portuguese credit rating was downgraded a couple of notches by both Fitch and S&P towards the end of the quarter. Moody's also downgraded Portugal debt by a notch on April 5th. Last week, Moody's had cut the credit rating on 30 Spanish banks. This has renewed the concern about the European debt, especially after the Portuguese parliament was unable to pass an austerity package.



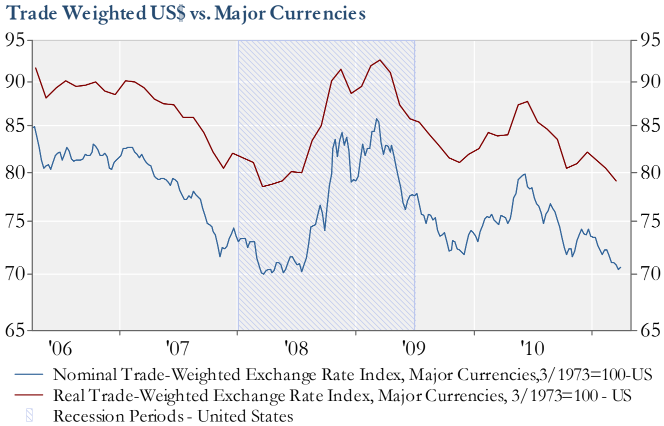
The Portuguese 10 year note is currently yielding an all-time high of 8.6% as speculation increases that the country will require a bailout.

Currency

The U.S. Dollar weakened against most major currencies during the first quarter. It lost 5.7% against the Euro, 2.8% against the British Pound and 6.1% against the Swedish Krona. Sustained low interest rates in the U.S. vis-à-vis other countries and possible hikes in interest rates by European Central Bank are the main reasons for the pressure on the U.S. Dollar. However this weakness should help U.S. exports. The Euro strengthened against most major currencies as possible higher interest rates overshadowed the current debt crisis. The Euro closed at 1.416 USD and the British Pound closed at 1.603 USD for the quarter.

The Japanese Yen surged during the initial days after the earthquake until the group of seven nations intervened to sell the currency on March 18th. The Yen weakened 2.42% against the U.S. Dollar during the quarter.

Trade Weighted US$ vs. Major Currencies



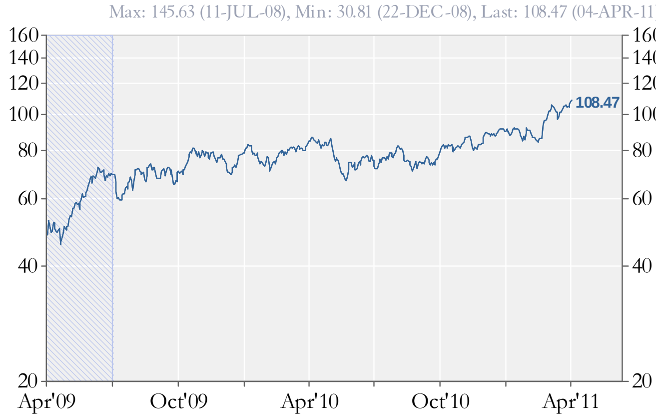
Source: FactSet Research Systems

Commodity Markets

Commodity markets were the strongest performers during the first quarter of 2011, fueled by upward pressure on the crude and refined products prices. Crude oil, gasoil and gasoline jumped 17%, 30% and 28% respectively during the quarter as protests grew into an armed conflict in Libya.

The S&P GSCI Index and Dow Jones UBS Commodity Index rallied 11.56% and 4.45% respectively during the first quarter. Gold futures continue to flirt with all-time highs and closed at $1,439.90 per ounce, advancing 1.3% during the past three months. Silver gained 22.5% during the same period to close at $37.89 per troy ounce.

WTI Crude Oil Spot Price ($/barrel)



Source: FactSet Research Systems

Cotton surged 38% as the two big producers, China and India, reported damage to the crop and could not quench the demand.

Summary

The economic data is still supportive of the view that the recovery, albeit slow, is still intact. It will be interesting to watch how the U.S. economy accommodates the withdrawal of the second round of quantitative easing by the Fed. Recent events in Portugal and Spain have diverted the market focus back on the European Debt crisis. The other drivers of the economy over the near term include domestic housing and job data, commodity prices, interest rates, political unrest in MENA and the Japanese nuclear crisis.