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Market Review

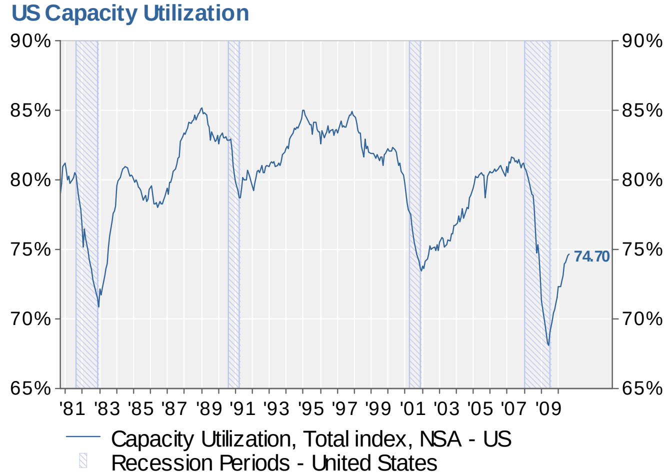
September 2010

US Economic Data

September economic data was in line with our expectations (*VCG – Outlook - Second Quarter 2010*) and paints a picture of soft growth. The US economy grew at a pace of 1.7% for the second quarter of 2010. This third revised growth estimate, although better than the second revision, is a weak number and indicates a slowdown from the previous quarters. The figure is sharply lower than the first quarter GDP growth figure of 3.7%.

Industrial production increased 0.2% for August, in-line with the estimates while Capacity utilization increased to 74.7%, from last months' 74.6%. There is still a considerable output gap as can be seen in the graph below.

US Capacity Utilization



Housing continues to be a drag on the economy. Existing home sales for August were slightly better than the estimate (4.13 M vs. 4.075 M) but the new home sales were lower than the estimate (0.288 M Vs. 0.295 M) and continue to be near record lows. We note the current housing data could be distorted by the now-expired homebuyer tax credit.

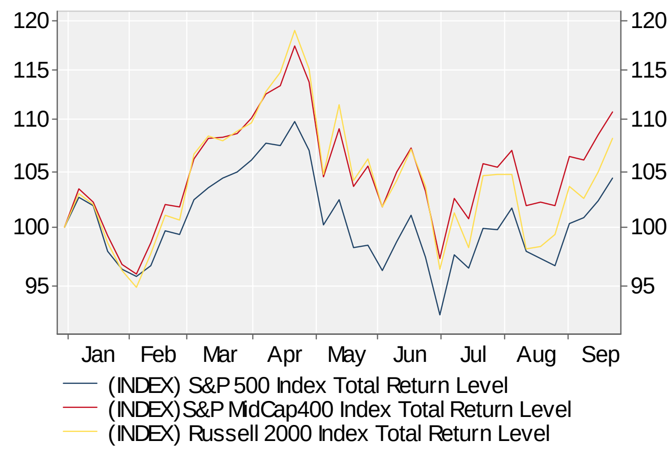
Unemployment and the Chicago ISM number shed some positive light on US economy. Initial claims in the week to 25 September fell by 16,000 to 453K lower than the consensus of 459K. Continuing jobless claims for the week to 18 September also fell to 4,457K from 4,540K indicating that private firms added more work. The Chicago index of manufacturing activity rose to 60.4 for September – higher than the consensus of 56 and August figure of 56.7 – showing some signs of improving economy.

Consumer spending – a vital piece in the puzzle – seems to be continuing its slow recovery. Retail sales for August were up 0.4%, higher than the consensus estimate of 0.3%. Retail sales ex auto was 0.6%, beating the consensus estimate by 0.2% and July data by 0.5%. Back-to-school deals and sales tax holidays in many states could have pushed the sales numbers. However, domestic auto sales took a hit in August with 3.7 Million units sold, 0.2 Million units lower than estimate and 0.1 Million units lower than the previous reported number.

Equity Markets

Equity markets across the globe reported strong numbers in the month of September. The S&P 500 was up nearly 9% during the month and the NASDAQ was up nearly 13%. The MSCI World and MSCI EAFE also posted strong gains reporting 9.4% and 9.8% respectively. The FTSE 100 gained 6.37% while the STOXX 600 reported returns of 3.44%. The MSCI Emerging markets had a strong September return of 11.1%.

USA Equity TR Perf.-Large vs Mid vs Small Cap



The economic uncertainty and fear of "double dip" that grabbed the headlines and investor psychology in August seems to have been replaced by optimism in September. US corporate earnings so-far have had a v-shape recovery. It will be important to watch the third quarter earnings reports as they unfold.

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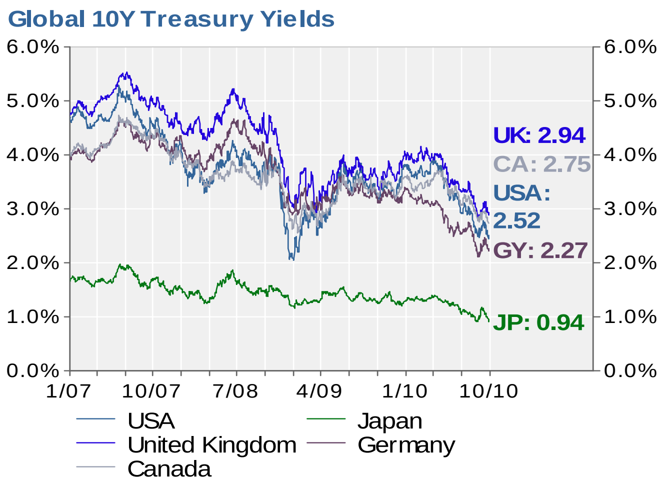
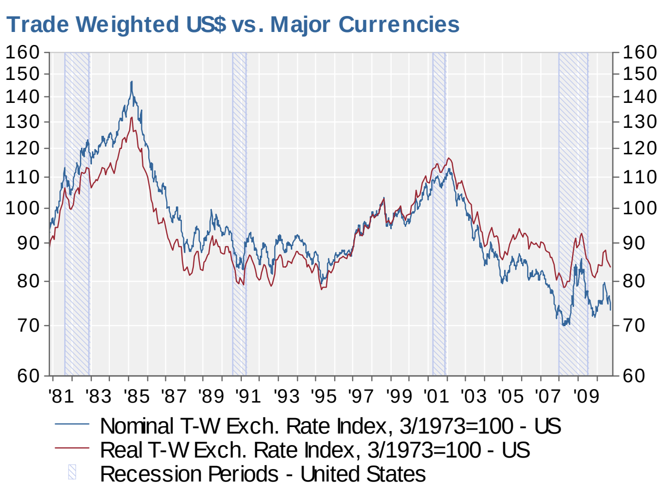
Bond Markets

The US Domestic bond market was close to flat for September. The US 10 year rate was at 2.48% beginning of the month, increased to 2.8% during the middle and ended



at 2.52%. The 30 year Treasury steepened, backing up, from 3.53% at the end of August to 3.69% at the end of September. The Barclays Capital US Aggregate Index increased by 0.11%. The United Kingdom 10 Year GILT & German 10 Year Bund yielded 2.94% & 2.27% respectively for September month end.

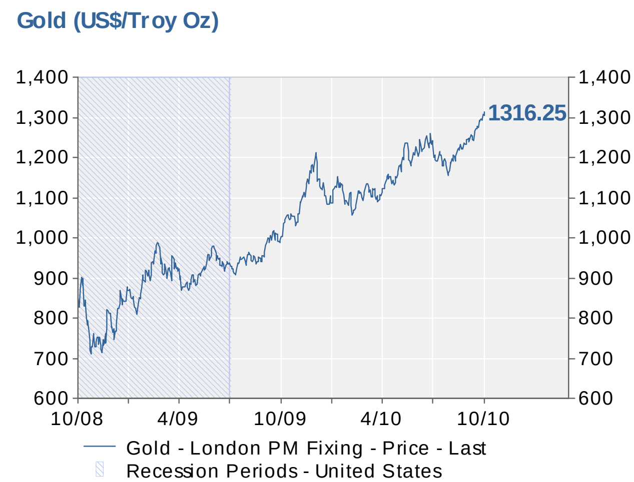
Currency



The DXY Index, which measures the performance of the U.S. dollar against six major currencies across the globe, was down 1.23% during September. Euro appreciated 7.35% and British Pound appreciated 2.38% vs. the USD respectively.

Commodity Markets

Crude oil increased more than 11% in September as the US government inventory report showed the crude oil inventories falling three out of four weeks through 24th September.



Gold continued its rally and gained nearly 5% as investors continued piling into gold. It is up nearly 20% YTD. Similarly, Silver rallied over 12% last month and is up nearly 30% YTD.