Economic Update
As of March 1, 2011

BAKER TILLY
INVESTMENT ADVISORS

BAKER TILLY OUTLOOK

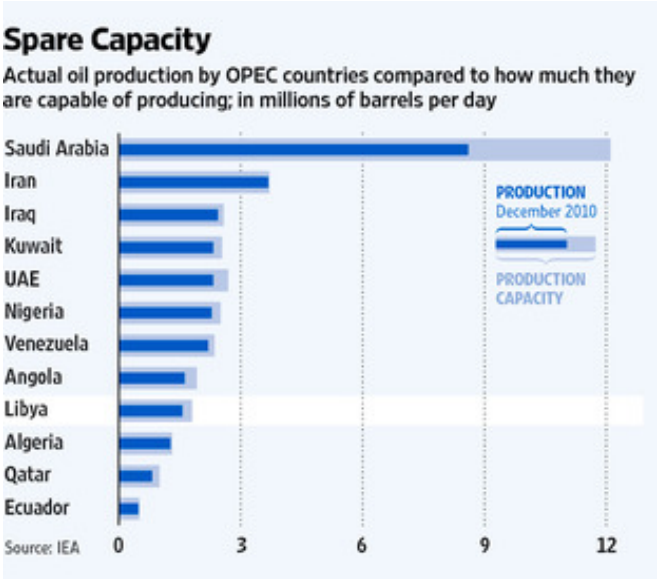
Middle East Unrest Spreads to Libya

- Libya produces 1.6 million barrels of oil per day and has 41 billion barrels of reserves, which represents 3% of global supplies.
- Estimates show about half of Libya's production has halted, but Saudi Arabia has increased its production by a similar amount to offset the difference.

Investor Concerns

Unrest spreads to more economically significant countries. (i.e. Saudi Arabia)

- Oil prices continue to rise
  - U.S. recovery grows weaker, stocks fall



Looking to the Gas Pumps

Recent Gas Prices

Prices rose by 20 cents during the last week of February, capping the sharpest rise since 2005. (Oil Price Information Service)

Future Gas Prices

$3.75 - $4.00: Erase Social Security tax cut

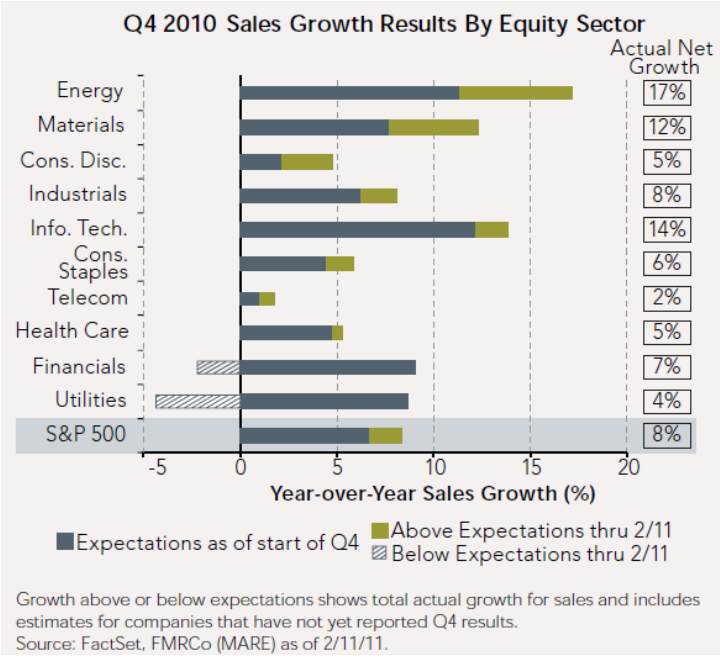
$5.00: Consumer and business spending cuts could have major impact on growth (AP economist estimates)

Oil Price Effect

A $10 rise in oil prices reflects a 25 cent increase in gas prices. (Deutsche Bank)

Revenue Growth Seen in Q4

With about 3/4 of S&P 500 companies reporting halfway through February, over 70% have reported higher than expected revenue.



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ECONOMIC INDICATORS

GDP Growth	+ -	• In the Commerce Department's second estimate, 4th quarter GDP was reported at 2.8% growth, which was slightly less than the first estimate of 3.2%. Consumer spending during the holiday season was strong, but not as strong as first estimated. Government spending was also less than first estimated.
Inflation	+ -	• CPI rose by 0.4% in January from a month earlier and12 month CPI stands at 1.6%. Increases in commodities and food accounted for 2/3 of the increase in the overall reading. • Core CPI (CPI – food & energy) increased by 0.2% in January from a month prior and the annual rate increased slightly to 1.0%.
Spending	+ -	• Retail sales rose by 0.3% in January, which was below consensus expectations of 0.5%. Sales were up 7.8% from a year ago. (Commerce Department) • Consumer spending rose by 0.2% in January, only half of what economists expected, however personal incomes rose by 1% in January, helped by rising wages and government tax cuts. • The savings rate increased 0.4% to 5.8% in January, a sign of caution among consumers. (Commerce Department)
Job Growth	-	• Headline unemployment rate unexpectedly dropped from 9.4% to 9.0% as of February 4. However, nonfarm payrolls only increased by 36,000, far less than the estimated 200,000 jobs needed to sustain growth. Many economists believe that winter weather had an effect on the mixed results and that little conclusions could be drawn from this report. • New rate released March 4, consensus estimate of 9.1%.
Manufacturing	+	• February reading increased to 61.4. This reading is tied with the May 2004 reading for the strongest level since December 1983. A reading above 50 indicates expansion. (Institute of Supply Management)
Consumer Confidence	+ -	• The consumer confidence index rose to its highest level in three years to 70.4 from a revised reading of 64.8 in January. However the reading is still well below the 90 level that signals a stable economy. (Consumer Research Center) • University of Michigan/Reuters consumer-sentiment index also hit a three year high with a reading of 77.5. Consumers are signaling that they feel more favorable about job prospects in 2011.
Housing	-	• The 20 city Case-Shiller Index (home-price readings) fell 1% in December from a month prior and is down 2.4% from a year ago. • Existing home sales rose unexpectedly by 2.7% in January, however the median existing home price fell to $158,000, the lowest level since April 2002. • New home sales fell 12.6% in January. The Commerce Department estimates there is 7.9 months of new home inventory despite homebuilders cutting their inventories in response to a weak market.

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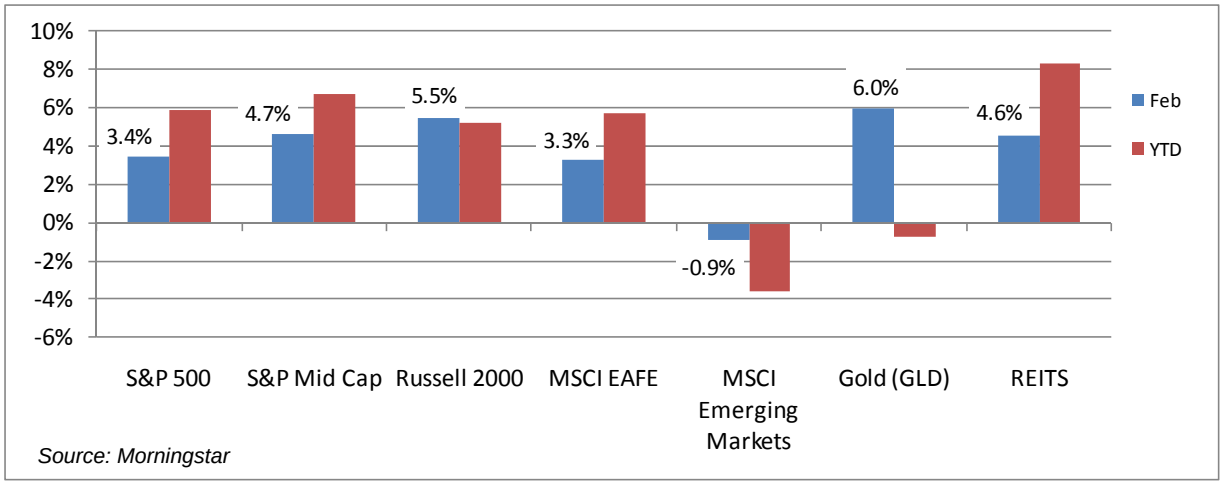
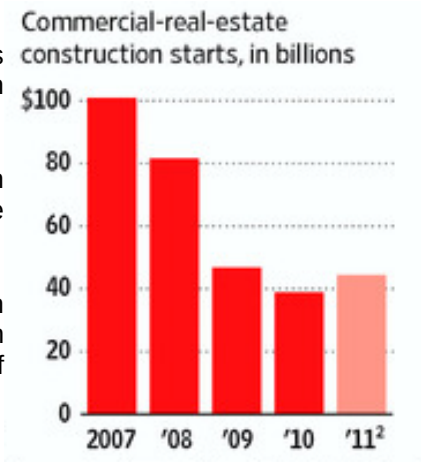
EQUITY MARKETS



Source: Morningstar

Commercial real estate stocks remains strong as construction lending picks up.

- Apartment building construction up 80% in January from the month prior. (Census Bureau)
- Estimates show JP Morgan financed as much construction lending in the first 6 weeks of 2011 as it did in all of 2010.



Source: WSJ, McGraw-Hill Construction
**2011 is an estimate*

Gold bounces back in February as traders come back to the "fear" trade.

Energy sector continues upward push as oil prices rise above $100 per barrel.

Small caps outperform on deal talks, large cap foreign exposure.

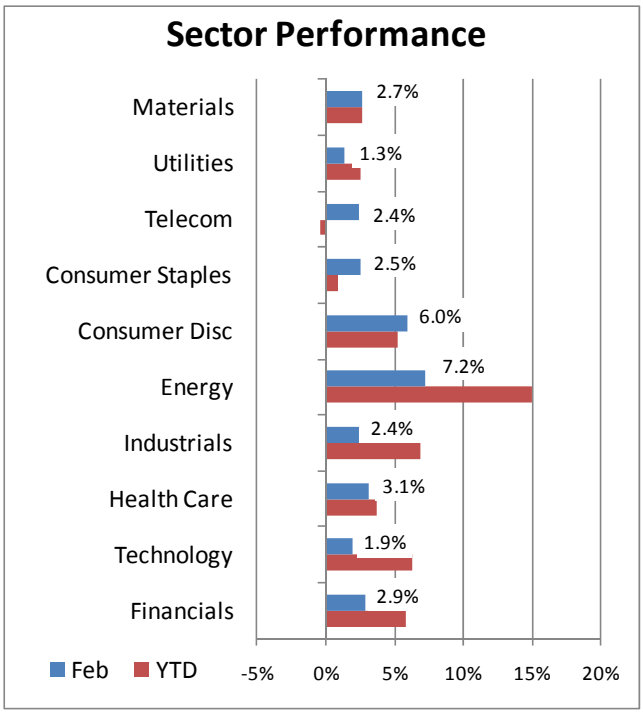
Foreign Markets

Emerging markets are significant relative underperformer as Middle East tension continues.

Dollar Trade	Jan '10	YTD
EAFE USD	3.3%	5.7%
EAFE Local	2.3%	4.0%

Foreign Markets	Jan '10	YTD
Japan	4.6%	4.7%
Pacific ex Japan	1.6%	0.4%
Europe	3.3%	7.4%
Latin America	2.0%	-2.6%

Sector Recap



Source: Morningstar

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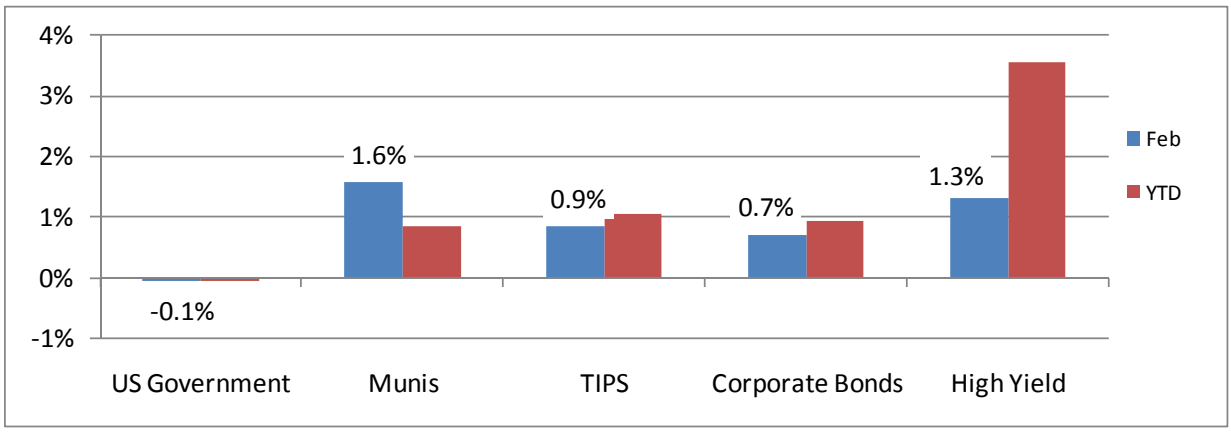
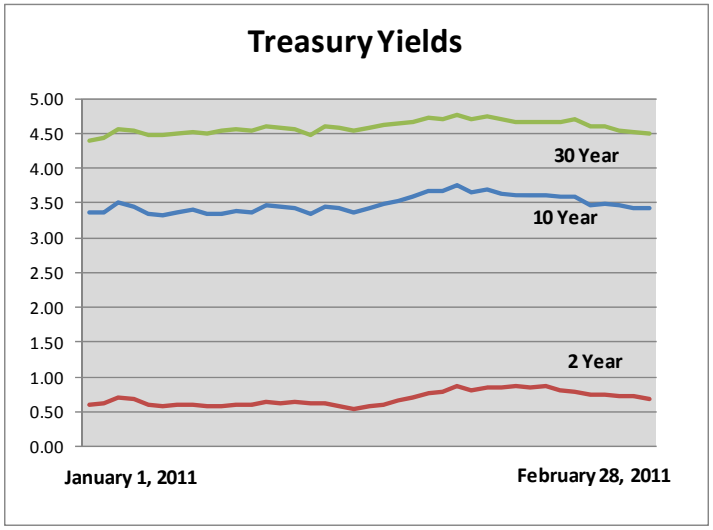
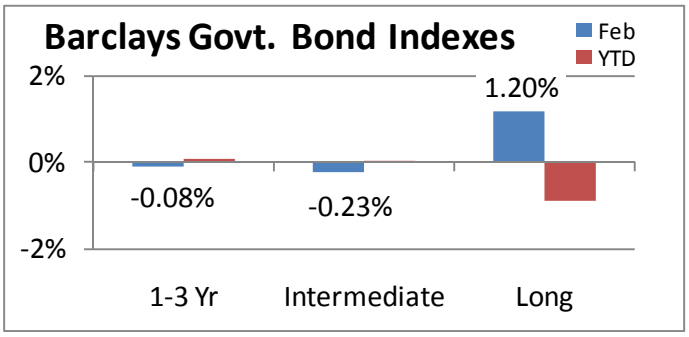
FIXED INCOME



Source: Morningstar



Source: U.S. Dept. of Treasury

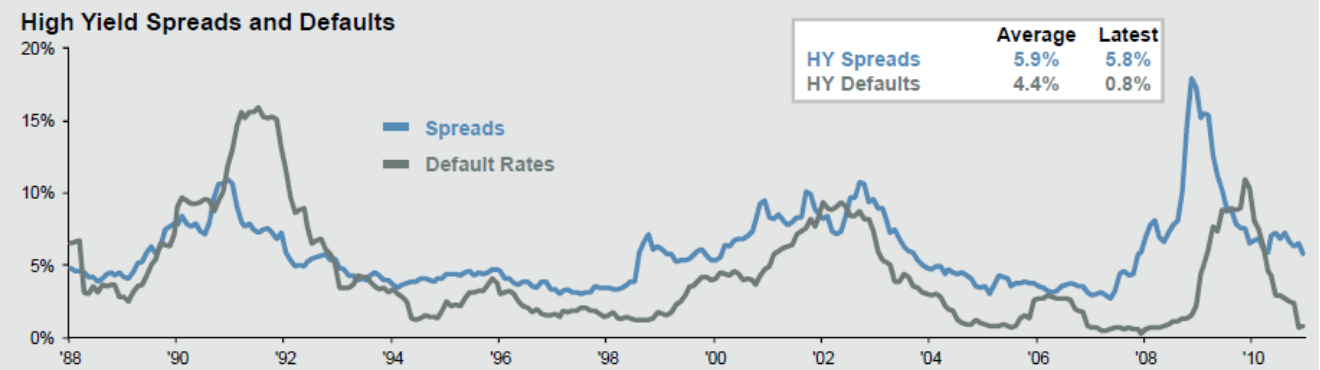


Falling yields at month end suggest investors are moving back into quality as Middle East turmoil unfolds, however **10 year Treasury** yield still ended up for the 6th straight month while the **30 year Treasury** yield ended down slightly for the first time since August.

Muni Bonds rally off lows, but state and local debt problems still loom.

TIPS market rallies as investors grow concerned over rising commodity prices.

High Yield market rallies in February as investors seek high income streams. Comparable Treasury spreads are now near 4.5% according to Merrill Lynch's HY Index.



Source: JP Morgan Asset Management. As of 12/31/10

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