



Monthly economic update



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December 2, 2011

Economic indicators

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Leading</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">↑</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Lagging</p>	<p>Consumer confidence</p> <p style="text-align: center;">-</p>	<ul style="list-style-type: none"> > Consumer confidence increased in November to a reading of 56, up from October's reading of 40.9. (1985=100, The Conference Board) The 6 month expectations index surged to its highest reading since July of this year. > University of Michigan/Reuters consumer-sentiment index increased in November to a reading of 64.1, from 60.9 for a third straight month of increases. However, the reading is still below the 40 year reading average of 85.3.
	<p>Spending</p> <p style="text-align: center;">+</p> <p style="text-align: center;">-</p>	<ul style="list-style-type: none"> > Retail sales were up 0.5% in October from a month ago and are up 7.2% from a year ago. (Commerce Department) > Consumer spending rose by only 0.1% in October, while personal incomes rose by 0.4%. > The savings rate rose slightly to 3.5% in October from a revised 3.3% rate in September. (Commerce Department)
	<p>Manufacturing</p> <p style="text-align: center;">+</p> <p style="text-align: center;">-</p>	<ul style="list-style-type: none"> > The October reading was 50.8. The November reading increased to 52.7, above expectations. Production and new orders were the two main contributors to the increase. (Institute of Supply Management)
	<p>GDP growth</p> <p style="text-align: center;">+</p> <p style="text-align: center;">-</p>	<ul style="list-style-type: none"> > In the Commerce Department's second estimate, third quarter GDP was revised downward from 2.5% to 2.0%. Weaker than estimated inventory accumulation was the main driver in the revision.
	<p>Inflation</p> <p style="text-align: center;">+</p> <p style="text-align: center;">-</p>	<ul style="list-style-type: none"> > The consumer price index (CPI) decreased by 0.1% in October from a month earlier and 12 month CPI fell to 3.5%. A decline in energy prices offset small increases in food and other products. > Core CPI (CPI – food and energy) increased by 0.1% in October from a month prior and the annual rate increased slightly to 2.1%.
	<p>Housing</p> <p style="text-align: center;">-</p>	<ul style="list-style-type: none"> > The 20 city Case-Shiller Index (home-price readings) fell 0.6% in September from a month prior, after increasing for the previous five consecutive readings. The index is also down -3.6% from a year ago. > Existing home sales rose by 1.4% in October from a month earlier. > New home sales rose 1.3% in October from a month ago.
	<p>Job growth</p> <p style="text-align: center;">+</p> <p style="text-align: center;">-</p>	<ul style="list-style-type: none"> > Unemployment dropped to 8.6%, the lowest jobless rate since March 2009. The economy added 120,000 jobs and the labor pool contracted, contributing to the decrease in the unemployment rate.

November continued to play out the European debt issues with a spike in markets around the world after liquidity swap arrangements were announced.

Overall, economic indicators showed slight improvements.

- > Consumer confidence rose from 40.9 to 56.
- > Retail sales were up 0.5% in October.
- > The manufacturing reading increased to 52.7 — above expectations.
- > Unemployment dropped to 8.6%, the lowest jobless rate since March 2009.

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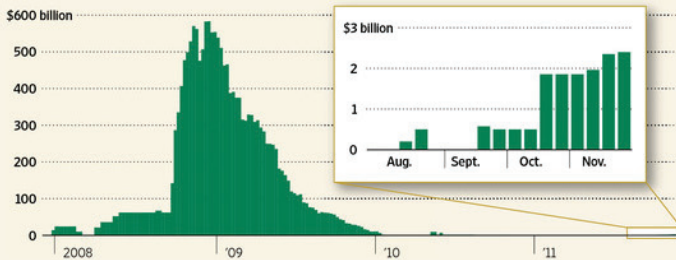
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Headlines

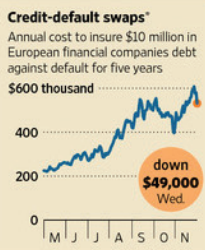
Liquidity swaps cause markets to spike

The Fed feeds dollars to central banks...

Federal Reserve central-bank liquidity swaps
Under this program, the Fed makes dollars available to other central banks, which in turn make the dollars available to banks under their jurisdiction.

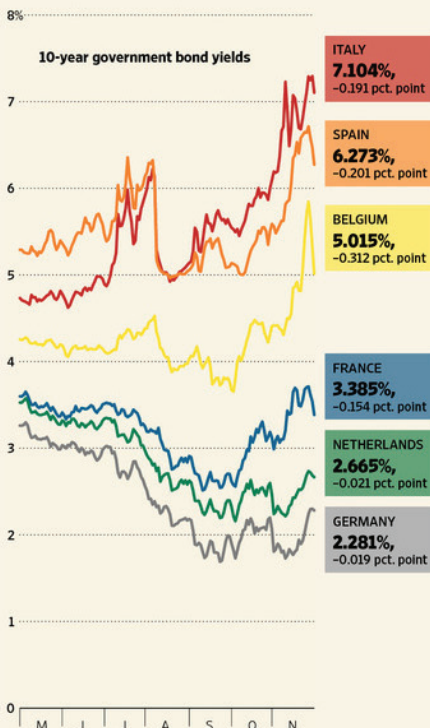


...markets celebrate...



*Based on the Market ITraxx Europe Sub Financials Index

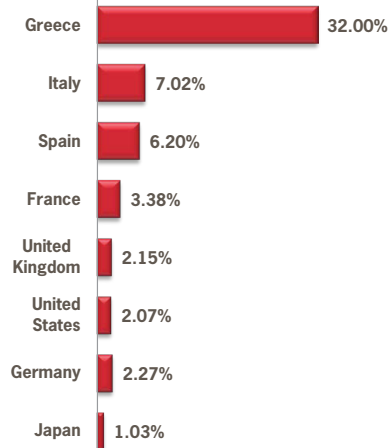
...but euro-zone governments still face big hurdles.



Source: Wall Street Journal

Sovereign debt yields

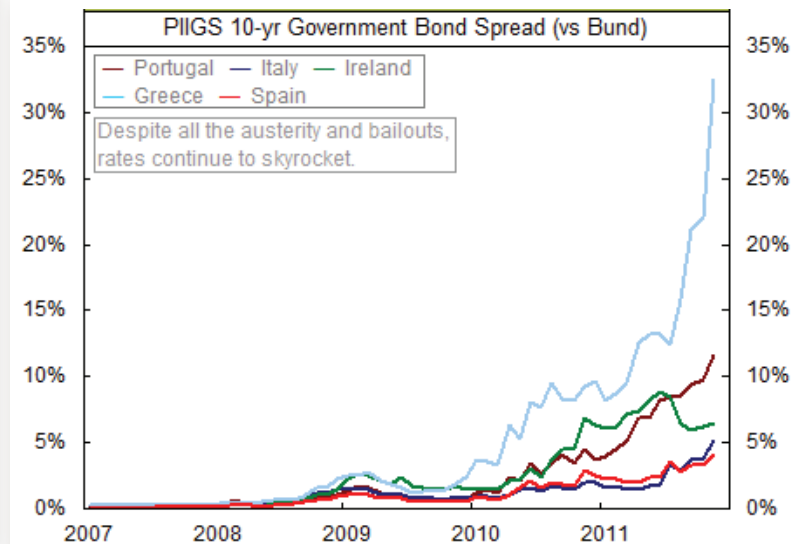
10 year sovereign debt yield as of November 30, 2011



Source: Bloomberg, Tullet Prebon

The European debt crisis

was at the forefront of headlines again for the month of November with news on new actions causing markets to spike at the end of the month, but several governments still face many issues.



Source: chartoftheday.com

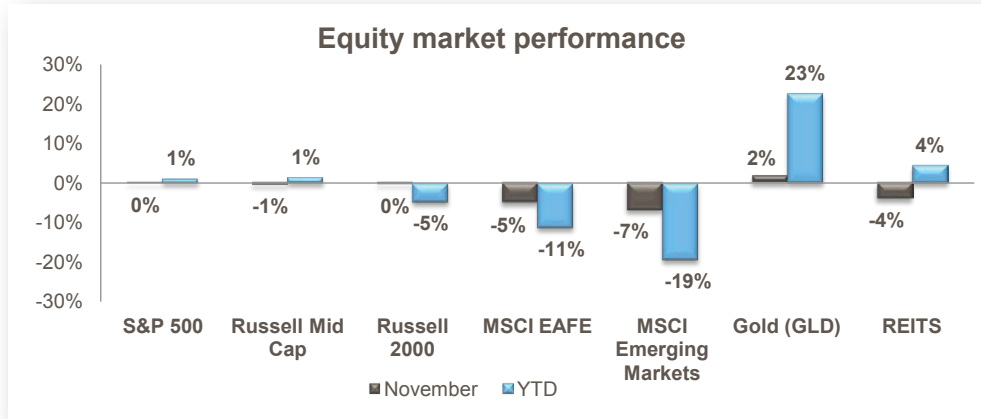


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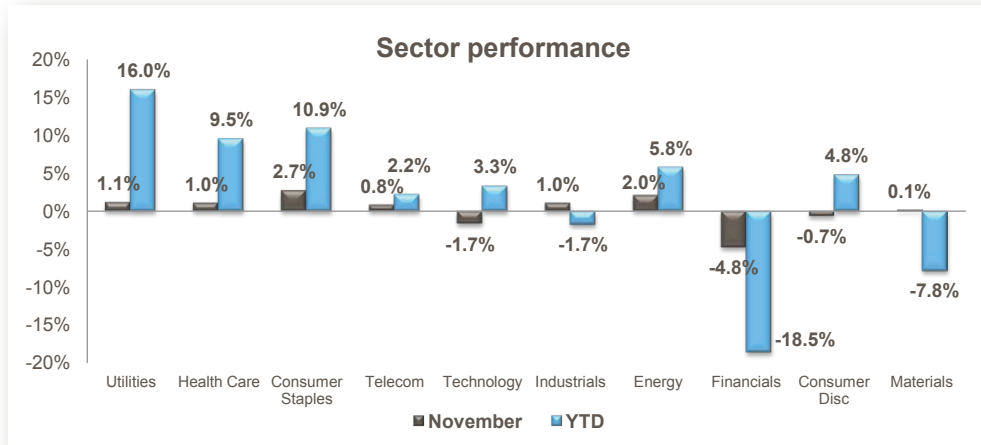


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Equity markets



Source: Morningstar, Inc.



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Late month equity rally

brought equity indexes nearly back to even for the month, after a seven day losing streak.

A strong dollar

hurt foreign equities, contributing to more than 2% of the loss in November.

Defensive sectors

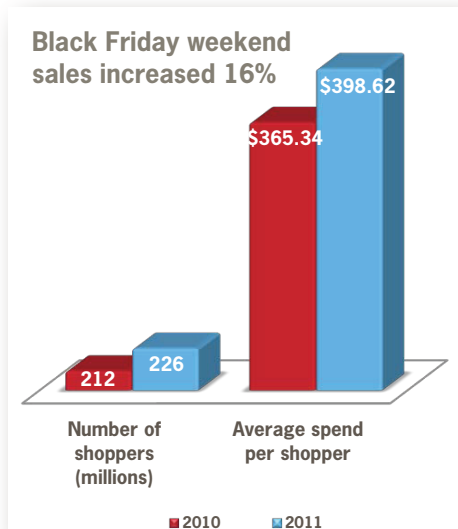
moved back in front as investors showed a preference for yield and less cyclical companies.

The strong start to the holiday shopping season

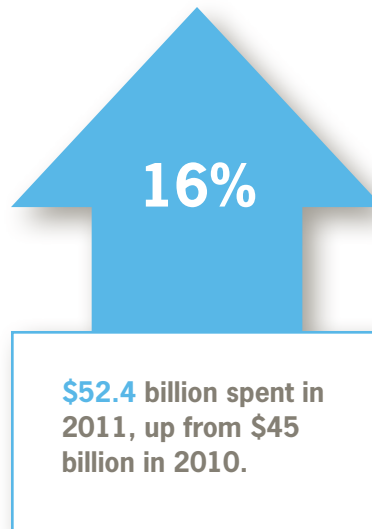
boosted equities:

> Black Friday sales +6.6%

> Cyber Monday sales +22%



Source: National Retail Federation



Source: National Retail Federation



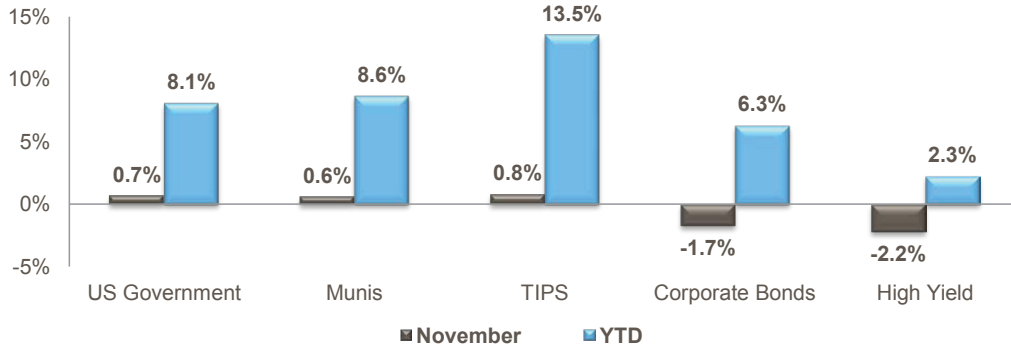
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Fixed income markets

Bond market performance



Source: Morningstar, Inc.

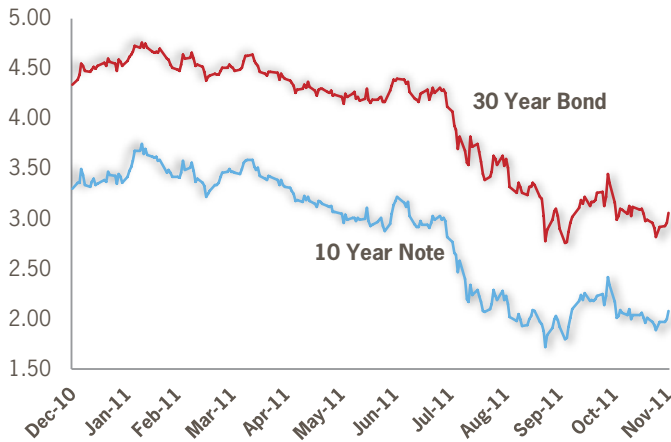
Risk off trade dominated the month for fixed income, as corporate bonds lagged.

Treasury yields fell modestly in November, but moved up towards the end of the month.

Central bank plan makes dollar access easier and could fuel temporary strength in TIPS, however TIPS are starting to look relatively expensive.

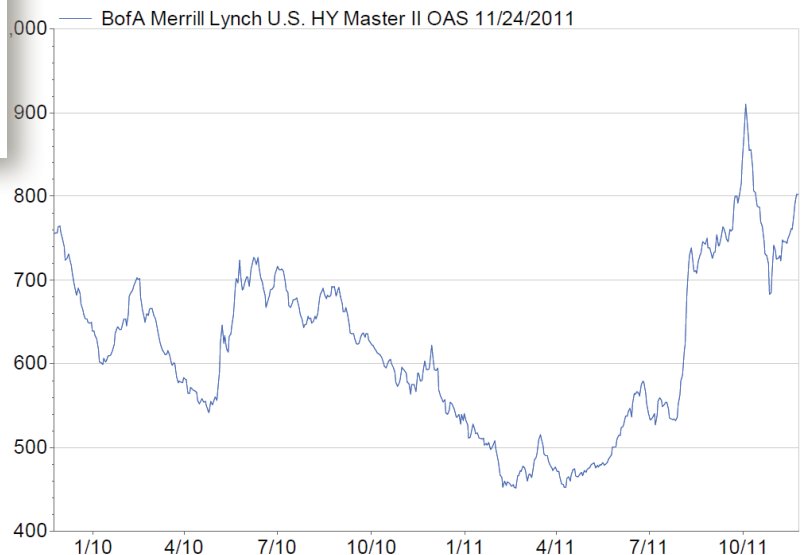
High yield spreads moved higher over the past several months, indicating investors are losing appetite for risky debt.

2011 Treasury Yields



Source: US Department of the Treasury

High yield spreads



Source: Fidelity Investments