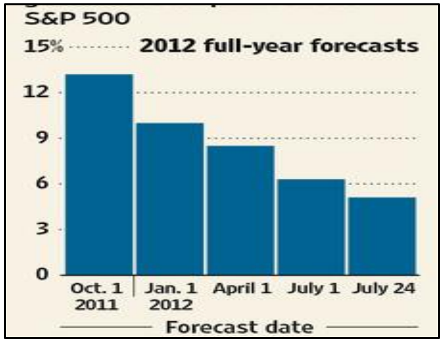
Market Recap

2012 S&P 500 Estimated Earnings Forecasts



Source: Thomson Reuters; WSJ

Spread Between Spanish 2-Year and 10-Year Yields

Source: Bloomberg

Second quarter earnings announcements have highlighted that Europe's deepening economic crisis has a significant drag on multinational corporate profits. The 27 countries of the European Union, in aggregate, represent the largest economy of the world and account for about one-fifth of all U.S. exports. A wide range of companies have blamed disappointing results on falling spending by European consumers. Spending is sliding on everything from big-ticket items such as electronics and cars to everyday staples such as food products and clothing. Thus far, 60% of S&P 500 companies that have reported results have missed revenue projections. Forecasted 2012 revenue growth has dropped from over 12% as recently as October 2011 to 3.9% today. With downside surprises growing, the number of profit warnings is four times that of upside surprises leading many analysts to dramatically lower their forecasts for earnings for the year.

Investors have focused on Spanish bond yields as an indicator of the financial stress in the region. Spain has seen its borrowing costs rise as the sovereign debt and banking crisis escalates. In response, over the last several months, the ECB facilitated two significant liquidity operations which temporarily diminished the expectation of catastrophe. Faith in these measures was gauged by the widening spread between Spanish 2-year and 10-year bond yields. Because banks could borrow money at low rates from the ECB, they had significant incentive to make money off of the high yields of Spanish short-term bonds and no incentive to take longer-term risk. Within the last week, the spread between the 2-year and 10-year bond maturities has narrowed dramatically, indicating that investors no longer believe the ECB's liquidity measures will have any significant effect and they see great risk in Spanish debt across the yield curve. Spanish 2-year yields rose 77 basis points to 6.53% while 10-year yields were up only 23 basis points to 7.50%.

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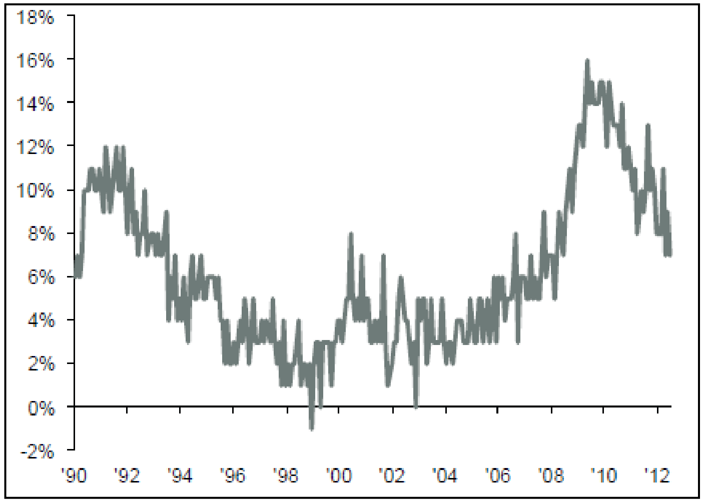
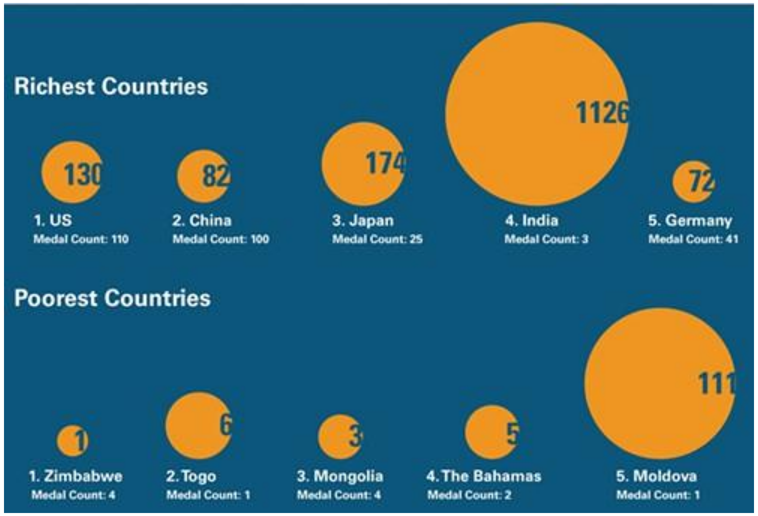
Net % of Small Businesses Reporting Greater Difficulty Obtaining Credit



Source: National Federation of Independent Business

In the wake of the financial crisis, firms of all sizes found it more difficult to borrow money. As the economy improved, large companies experienced improving credit conditions. The same could not be said for smaller businesses. Access to credit for small businesses may finally be easing. According to a survey conducted by the National Federation of Independent Business, the net percentage of small businesses reporting that credit had become more difficult to obtain relative to the previous three months has declined from its peak of 16% in May 2009 to 7% in June 2012. The trend has been confirmed by other lending surveys. As borrowing conditions for small companies continue to improve, access to funding could serve as a tailwind for economic growth and job creation.

GDP per Medal Won at 2008 Olympics



Source: Reuters

When the Summer Olympics begin this week, 10,500 athletes representing 204 nations will commence competing in 26 sports. Medals will be handed out in more than 300 events over the next two weeks. More countries will be represented than ever before. Historically, the nationality of the medal recipients has been dominated by economic super powers: United States, China, Russia, and Germany. However, economic strength is certainly not the primary criteria for medal success. An analysis of how the richest and poorest nation's medal winners fared when their 2008 medal count was adjusted by that year's annual GDP shows significant discrepancies. For example, the U.S. won a medal for every $130 billion in economic output; India for each $1.126 trillion. Zimbabwe, while the poorest nation competing, earned the most medals per GDP at $1 billion GDP per medal.

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