Market Recap

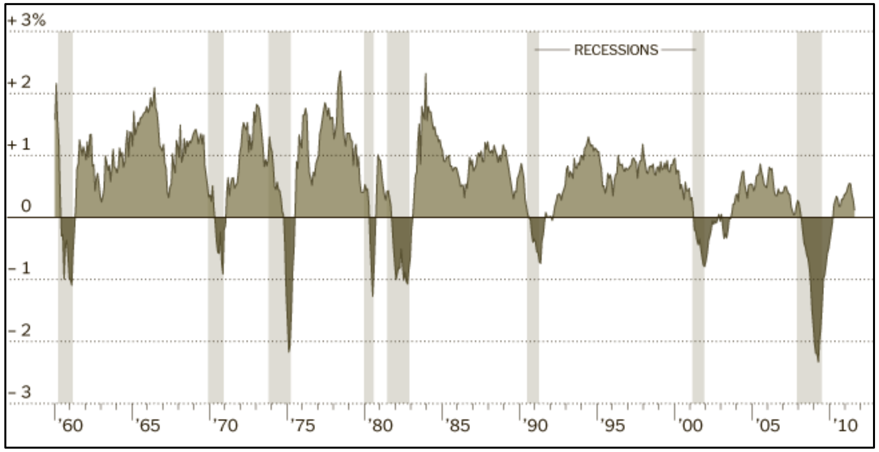
Proposed Costs of The American Jobs Act

	$, bill
Tax Cuts to Help America's Small Businesses Hire and Grow	**70**
Cut employer payroll taxes in half & bonus payroll cut for new jobs/wages	65
Extend 100% expensing in 2012	5
Putting Workers Back on the Job While Rebuilding and Modernizing America	**140**
Teacher rehiring and first responders	35
Modernizing schools	30
Immediate surface transportation	50
Infrastructure bank	10
Rehabilitation/repurposing of vacant property (neighborhood stabilization)	15
National wireless initiative	0*
Veterans hiring initiative	n.a.
Pathways Back to Work for Americans Looking for Jobs	**62**
UI Reform and Extension	49
Jobs tax credit for long term unemployed	8
Pathways back to work fund	5
More Money in the Pockets of Every American Worker and Family	**175**
Cutting employee payroll taxes in half in 2012	175
TOTAL	**447**

** Proposal has a gross cost of $10bn, but a net deficit reducing impact of $18bn because of spectrum auction proceeds*

Source: The White House Office of the Press Secretary

4-month Change in Nonfarm Payroll



Source: Bureau of Labor Statistics

On Thursday, President Obama unveiled his long-awaited jobs bill. The package consists of $447 billion of spending initiatives and tax cuts to boost economic growth, in what is viewed as the White House's last chance to revive the economy prior to the 2012 election. More than half of the plan consists of payroll-tax cuts for employees and employers, an idea that may appeal enough to Republican lawmakers to allow passage. The market viewed the bill with skepticism about its ability to make it through Congress as well as how to pay for it. Economists noted the relatively small size of the plan and debatable impact of the temporary cut in payroll taxes. Small business owners will still be hesitant to hire despite the cut because of the perceived threat of higher personal income tax levels.

Over the last four months, job growth has slowed to a pace that is typically associated with the start of recession. Even if a new recession does not occur, job growth has slowed to a pace that is lower than population growth, which ultimately causes unemployment to rise. The current economic cycle saw the last recession ending June 2009, 27 months ago. Since the end, we have seen an increase in employment, manufacturing output, and retail sales. It has since plateaued at very modest level. However, it is not accurate to claim that there has been no recovery. It is more accurate to say it has been a weak recovery. Consider — the only real double dip on record was the 7 month recession from January to July 1980, followed by a new recession a mere 12 months later, lasting from July 1981 to November 1982. The current pullback does not seem like a double dip — more like two distinct cycles.

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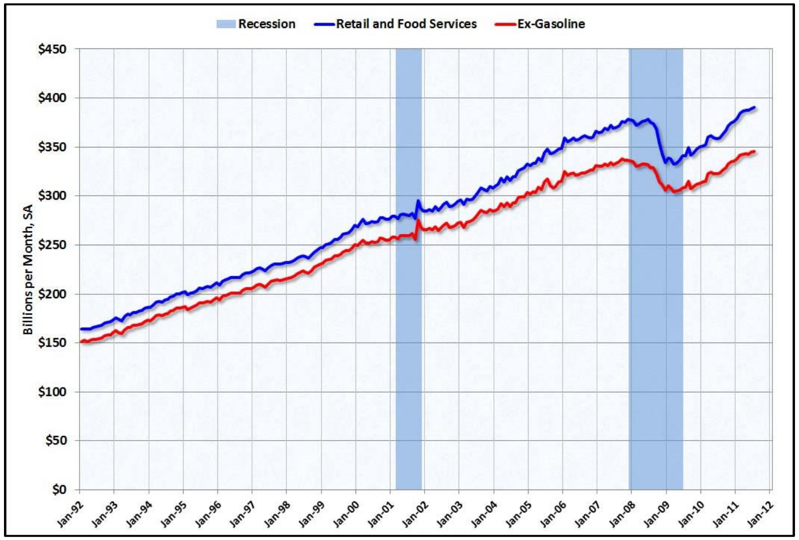
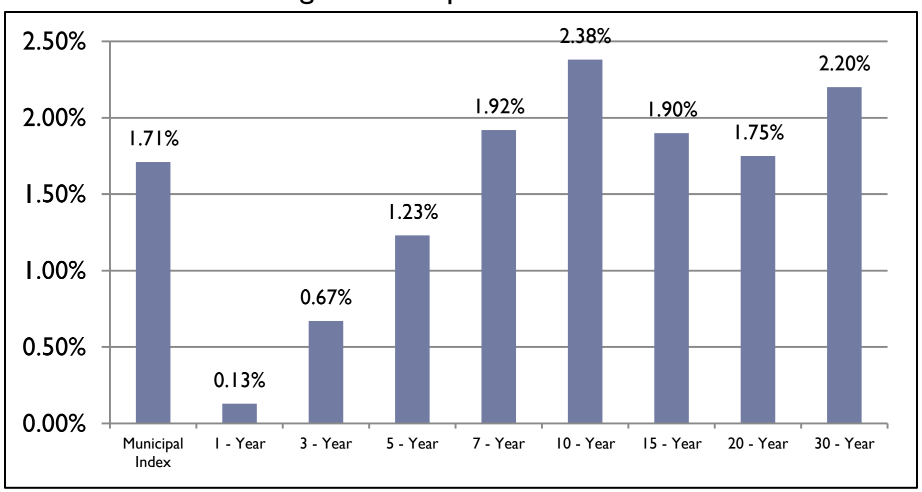
U.S. Retail Sales



Source: Census Bureau

According to the most recent retail sales numbers, consumers appear to have shrugged off signs of a slowing economy as they stepped up purchases across the board. Retail sales grew 0.5% last month, the strongest showing since March. We however, remain cautious of the most recent reading as other gauges suggest that the consumer's mood darkened abruptly in recent weeks. This could mean less willingness to spend going forward. The most recently released University of Michigan's index of consumer sentiment, tumbled 8.8 points to 54.9—its lowest level since 1980 and lower even than levels seen during recent recessions. The survey reflects consumer attitudes, but doesn't necessarily predict how they will behave. In general, though, weaker sentiment tends to track slowdowns in the economy.

August Municipal Bond Returns



Source: Barclays Capital

Municipal bonds across the curve were sharply higher in August. The intermediate portion of the curve (7 to 10 years) was especially strong. Year to date, municipal bonds have significantly outperformed the stock market. The municipal bond index is 7.29% higher while the return of the S&P500 has been -1.77%. Much of the outperformance for the municipal market can be attributed to the flight to safety as funds have flowed from stocks into bonds. The default fears prevalent at the end of 2010 have been somewhat mitigated resulting in an increase of demand.

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