

Market Recap

S&P 500 Third Quarter Earnings Scorecard

Earnings Year over Year	Number of Companies	% of Total
Higher EPS	92	73.0%
Lower EPS	29	23.0%
Unchanged	5	4.0%

Ford, Gannett, Goldman Sachs, Yahoo!, Forrest Labs

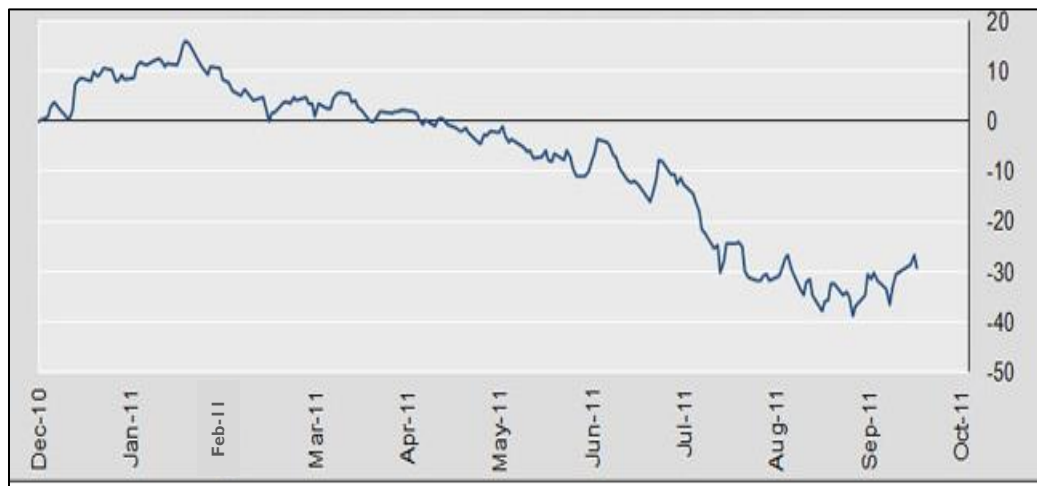
Earnings Consensus Estimate	Number of Companies	% of Total
Positive Surprise	90	71.4%
Met Expectation	12	9.5%
Negative Surprise	24	19.0%

Intel, Morgan Stanley, JP Morgan, Google
AT&T
Apple, Alcoa, Goldman Sachs

Total Companies Reported 126

Source: Reuters

European Bank Stock Performance



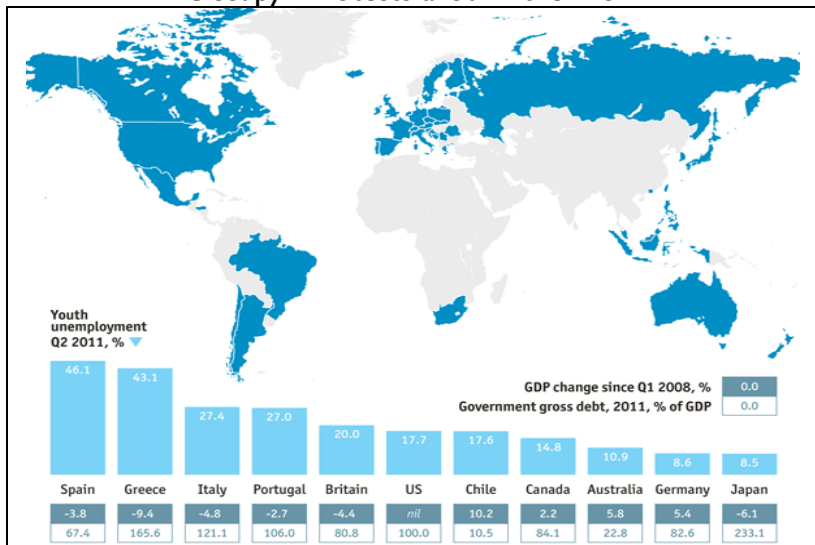
Source: Bloomberg

We are deep into third-quarter earnings season. Reported earnings for the S&P 500 are increasing ~ 14% y-o-y, with revenue growing ~10%. That marks the eighth consecutive quarter of double-digit earnings growth. During last quarter's earnings season, macro events and sector performance seemed to dominate fundamentals. This season, fears of the future are trumping current good company news. Investors seem to recognize that there is relative value in stocks; however, this value is underappreciated because there are tremendous fears over the situation in Europe, the implications for the U.S. economy, and future corporate profits. Investors have been evaluating company commentary regarding the ability to generate high-revenue growth in emerging markets to offset weak economic growth in the U.S. Furthermore, concerns exist as to whether overall economic growth can be sustained or increased in 2012.

The eyes of investors are focused on the European Union summit this weekend. The hope is for a plan to ensure that Greece's debt crisis doesn't cause financial contagion. Markets have been concerned about the potential recapitalization of European banks. European bank stocks continue to be pressured by persistent worries about potential sovereign debt write-offs, which could lead to the need for recapitalization by state governments and potential downgrades of bank stocks by ratings agencies. The most recent thinking has been that the size of the European Financial Stability Facility (EFSF) would need to be increased. The EFSF was created by Euro area members to safeguard financial stability in Europe by providing financial assistance to Euro area members.

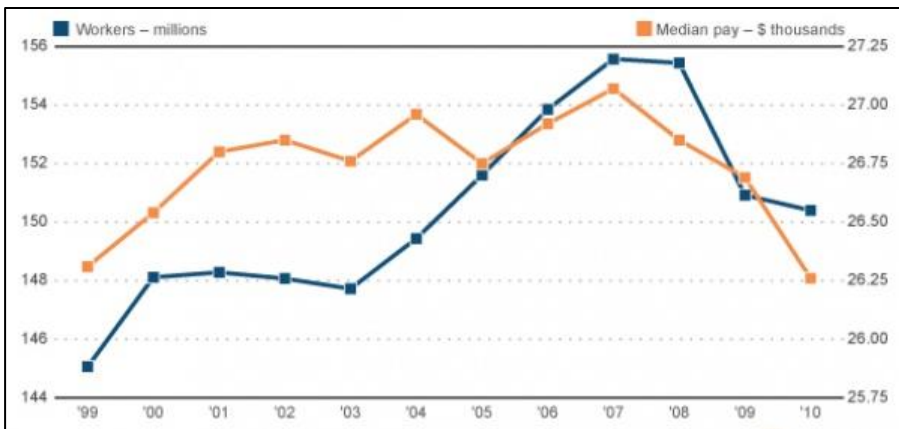
Market Recap

“Occupy” Protests around the World



Source: IMF

U.S. Workers and Median Pay



Source: Reuters

The "Occupy" protests are an ongoing series of international protests primarily focused on social and economic inequality and corporate greed. To date, protests have taken place in over 900 cities across Africa, Asia, Australia, Europe, and the Americas. Protests originated in May with Spain's Indignados who have been protesting against the economic situation in which they find themselves. They have been joined by similar movements from New York to Sydney. Education is the focus in Chile, frustration with bankers in Britain. All protests seem to share a common demand: someone, somewhere, should do something to right the problems of global capitalism as currently constituted. One reason why these protests are so interesting is that their targets, those supporters of globalization, capitalism, and free markets, tend also to agree that the system needs fixing.

Anyone who wants to understand the enduring nature of "Occupy Wall Street" and similar protests across the country need only look at the first official data on 2010 U.S. workers, which the U.S. government released on Wednesday. The key finding was that not only were there fewer jobs but that those that were employed were paid less last year. This was consistent except at the high end of the pay scale where the number of people making more than \$1 million increased by 20 percent over 2009. The median paycheck fell again in 2010, down 1.2% to \$26,364. This equates to \$507 a week, the lowest level, after adjusting for inflation, since 1999. The number of Americans with any work also fell last year, down by more than a half million from 2009 to less than 150.4 million.

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