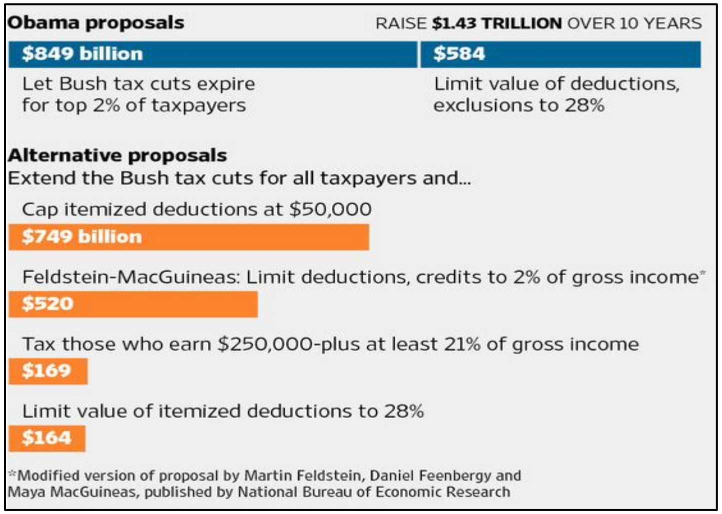
Market Recap

Fiscal Cliff Options for Raising Taxes



Source: U.S. Treasury; Tax Policy Center; WSJ

S&P 500 (November 5, 2012 to November 15, 2012)

Source: MSN Money

Negotiations have begun in earnest to address the looming "fiscal cliff." The plot is similar to the one that played out in the summer of 2011. Democrats want to freeze tax rates for all families earning less than $250,000 per year but allow tax rates to increase for wealthier Americans. Republicans have expressed an openness to raising tax revenues but have resisted marginal tax rate increases. Instead, they have suggested that new tax revenue should be derived primarily from deduction limitations. Currently, top marginal Federal ordinary income tax rates are set to increase from 35% to 39.6%, raising about $850 billion over the next decade. One alternative approach gaining traction would be to cap itemized deductions at $50,000. While it would likely impact some taxpayers with incomes under $250,000, such a strategy is projected to yield approximately $750 billion in additional revenues over 10 years. Washington insiders have expressed the belief that the size of an eventual deal will be smaller, reflecting a compromise between the tax increases that Republicans can tolerate and the benefit cuts that Democrats can accept.

Over the past few weeks, investor sentiment has turned decidedly negative. Post-election, the S&P 500 has been lower in six of the seven trading sessions. The Nasdaq Composite Index and the small-cap Russell 2000 index have descended into correction territory (down by more than 10% since recent highs hit in mid-September). Early in the year, markets rose as investors became emboldened to buy riskier assets. Much of that was driven by the belief that the Federal Reserve would continue to support stock prices with quantitative easing. Since the latest Fed announcement of additional easing time, investors have turned their attention to the election and worries about political gridlock in Washington. The overhang of the ongoing European debt crisis and slowing growth in China have also heightened investors' wariness.

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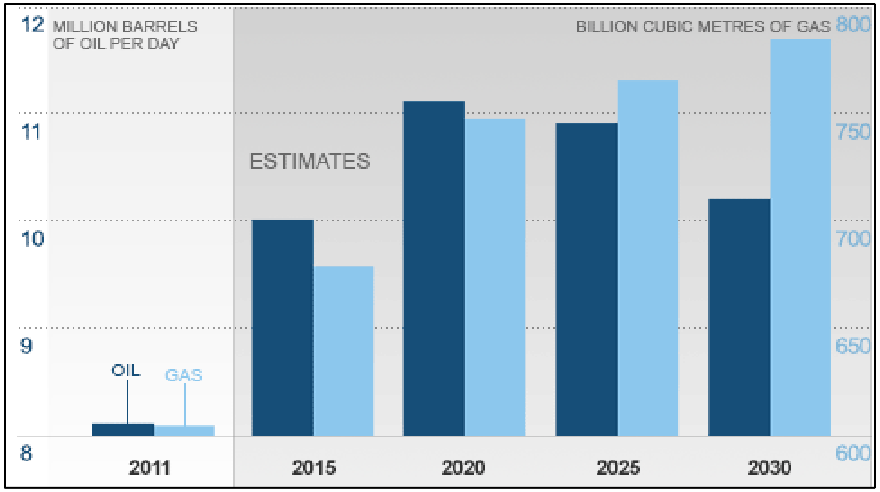
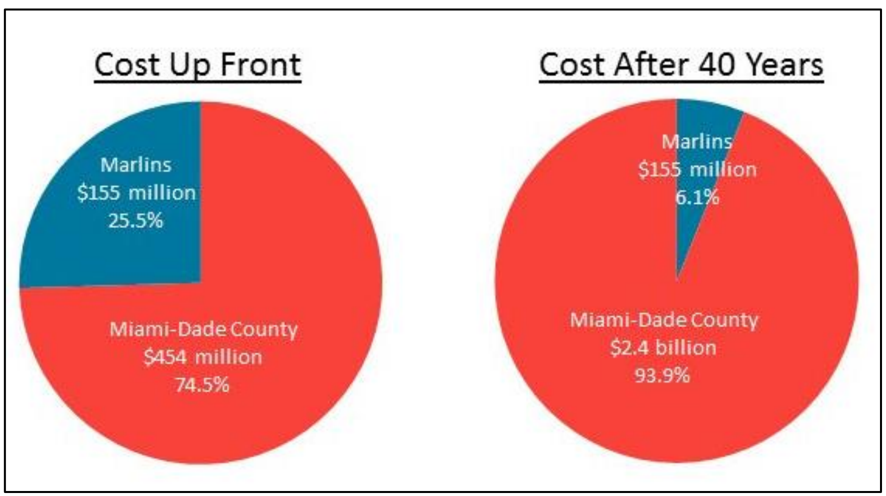
U.S. Oil and Gas Production



Source: International Energy Agency; CNN

Miami Marlins Stadium Financing



Source: Forbes

The global energy map is being redrawn by the resurgence in oil and gas production in the U.S. According to the International Energy Agency, the U.S. will overtake Saudi Arabia as the world's largest oil producer by 2020, creating a shift that could transform not just energy supplies but also U.S. politics and diplomacy. U.S. oil production is forecast to reach 11.1 million barrels a day in 2020. Accordingly, the role that energy production played in the recent presidential campaign was entirely different than that in 2008. Four years ago, the perception of energy scarcity and rising concerns regarding global warming led President Obama to push for legislation capping greenhouse-gas emissions and to focus on green-energy initiatives. Today, the move towards U.S. energy independence can largely be attributed to the shale-oil boom and the rising use of natural gas, of which the U.S. has long been a major producer.

Since 1991, 25 of Major League Baseball's 30 teams have built a new stadium or undertaken major renovations of an old one. The price almost always comes at taxpayer expense. The Securities and Exchange Commission has launched an investigation into the especially-aggressive financing of the Miami Marlins' stadium. The SEC is seeking detailed information about the bonds used to finance the stadium and whether investors might have been misled. The Miami Marlins' new ballpark cost $515 million to be constructed. Of that, the Marlins, and owner Jeffrey Loria, contributed $155 million, with some of their contribution coming in the form of rent payments. The rest of the bill ($454 million) was paid by the city of Miami and Miami-Dade County through the issuance of bonds. It has been estimated that it will cost them $2.4 billion to repay their obligations over the next 40 years. The focus of the SEC investigation is on the extent and veracity of the financial disclosure by the team, as well as the resulting impact to the county.

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