Capital Market Outlook

Bank of America Merrill Lynch

FOR CLIENTS OF RETIREMENT SERVICES

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Week of July 16, 2012

In Brief

Business equipment and software spending (CAPEX) is shifting to the "maintenance plus" phase.

- **CAPEX should grow 6% to 8% in 2012 – 2013.** While uncertainty over the fiscal cliff and Europe will weigh on business confidence and thus CAPEX, ongoing replacement/upgrade demand ("maintenance"), particularly in the technology space, and growing capacity utilization in the manufacturing sector ("plus") should mean CAPEX will make a meaningful contribution to overall growth over the next few years.

Economic Outlook

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Capex is in the "maintenance plus" phase

Domestic businesses have plenty of reasons to be cautious about spending. For one, the global backdrop is clearly weaker and has taken its toll on domestic profits, which tend to lead CAPEX, and nonfinancial profit margins are probably peaking (if they haven't peaked already). Second, the replacement/catch-up cycle for equipment and software spending (CAPEX) is mostly over as investment levels relative to capital stock levels are near their long-term averages. Finally, the general election and fiscal cliff debate create a great deal of uncertainty about such issues as tax rates, bonus depreciation allowance, and regulatory reform. Fundamental discounted cash flow analysis, therefore, is that much more difficult.

Still, there are a number of good reasons that businesses will continue to invest in equipment and software, in our view. Specifically, cloud computing, big data, cybersecurity, server virtualization, new data centers, construction equipment for a budding housing recovery and energy equipment (including transportation) upgrades are just a few reasons that U.S. companies will need (and want) to invest in future growth. We would describe the next phase of business spending as "maintenance plus" and think the pace of growth a few years into previous expansions is probably a decent guide (Exhibit 1). Uncertainty will weigh on business confidence and CAPEX in the near term for sure, but ongoing replacement/upgrade demand ("maintenance"), particularly in the technology space, and growing capacity utilization in the manufacturing sector ("plus") should prevent an outright collapse, in our view. Importantly, nonfinancial firms have the means to spend, generally speaking. As of the first-quarter Flow of Funds data, nonfinancial corporations had $1.7 trillion in liquid assets and significantly less leverage, as seen by the

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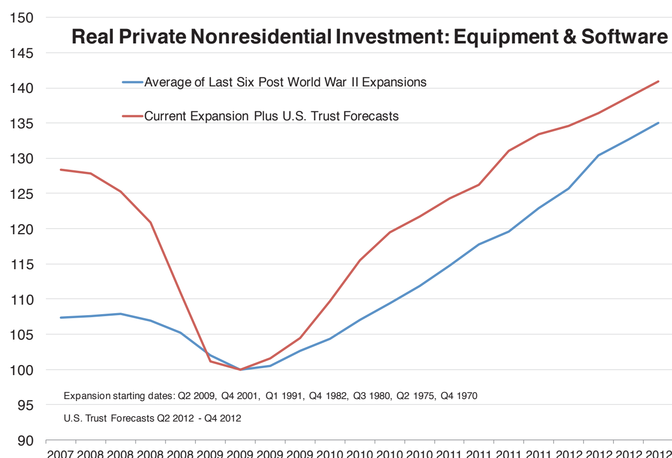
Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value

decline in debt-to-equity ratio from over 80% during the recession to around 50% in the most recent reading. While profit margins may peak in the near term, they typically do not collapse and should remain relatively high in the medium term.

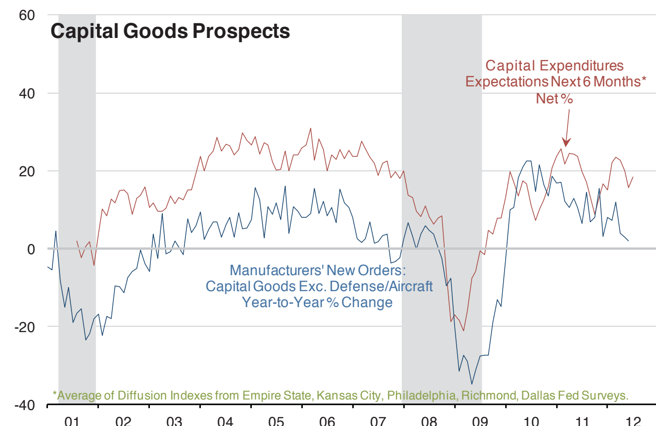
EXHIBIT 1: STEEP DECLINE, STEEP RECOVERY, BACK ON TRACK.



Source: Bureau of Economic Analysis/Haver Analytics.
Data as of July 10, 2012.

Data from regional manufacturing surveys, the National Federation of Independent Business (NFIB) small business survey and various surveys of corporate executives support the case for a slowdown in CAPEX, but not a collapse. For example, an average of the diffusion indexes from five regional manufacturing surveys with regard to CAPEX prospects in the next six months is holding up even as "core" orders, an oft-quoted proxy for overall equipment and software spending, are noticeably softer (Exhibit 2). Additionally, the net percent of small businesses planning capital expenditures in the next three to six months fell three percentage points in the most recent survey, but the level (21%) is near the average for the recovery. For various reasons, small business demand for capital equipment is likely to continue lagging, but it should contribute more visibly as the year progresses, especially as the housing recovery gains traction.

EXHIBIT 2: SURVEY SAYS...



Sources: Federal Reserve Board; Census Bureau/Haver Analytics.
Data as of July 3, 2012.

It Typically Takes A Recession To Derail Technology Spending

Digging deeper, business spending on IT probably explains the discrepancy between the stronger survey data and weaker "core" orders and shipments data seen in Exhibit 2, which tend to be unreliable partly because they exclude a significant portion of IT. This is important because technology spending is the largest segment of CAPEX spending and also the least volatile, as a good portion of the spending is for maintenance. It typically takes a recession to induce an outright decline in IT spending. The software segment of investment spending in the gross domestic product (GDP) accounts, for example, has only registered negative year-over-year growth in seven quarters since 1959 (three each during the last two recessions). As such, it tends to drive the trend.

The latest Duke/CFO survey showed that finance executives plan on ramping up IT spending over the next year even as they cut back on overall CAPEX spending. That's not to say that IT spending will not come under pressure from elevated levels of uncertainty. It already has. Global IT spending estimates from Gartner, IDC and Street Analysts have come down from 7% to 9% year-over-year growth in 2012 to 2% to 5% year-over-year growth, but there is still healthy demand for software spending. Our takeaway from a recent Morgan Stanley survey of chief investment officers (CIOs) is that the value added for software investment is greater than it is for hardware upgrades in data centers. They are focusing spending in areas such as predicative analytics, data mining, visual business intelligence, smart technology and big data infrastructures, but they are also spending to maintain existing infrastructures.

The Morgan Stanley CIO survey also revealed that 52% of respondents (CIOs) expect to refresh their core Enterprise Resource Planning (ERP) systems by year-end 2013. This compares with 45% in the previous report. The greater number of firms moving forward with their IT infrastructure build-outs may also accelerate the apparent shift in buying patterns to "pay as you go," versus the traditional software model contract that combines an upfront license payment with a sizable and increasing maintenance payment. While large cap software will benefit from their incumbent contracts and C-suite relationships, startup organizations will turn to smaller (relatively) more specialized vendors in the space to meet their needs.

The added value for software investment is apparent in the outperformance of application software, systems software and data processing, as seen in Exhibit 3.

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EXHIBIT 3: S&P 500 INFORMATION TECHNOLOGY YEAR-TO-DATE PERFORMANCE.

Information Technology Year-to-Date December 31, 2011 through July 10, 2012	
Computer Hardware	+37.9%
Application Software	+15.0%
Systems Software	+13.6%
Data Processing and Outsourced Services	+12.4%
IT Consulting & Other Services	+1.7%
Semiconductors	+0.4%
Electronic Equipment Services	-1.7%
Computer Storage and Peripherals	-2.0%
Internet Software and Services	-2.8%
Semiconductor Equipment	-3.5%
Office Electronics	-4.9%
Communications Equipment	-5.1%
Electronic Equipment Manufacturers	-24.6%
Home Entertainment Software	-43.6%

Source: S&P/Haver Analytics.
Data as of July 10, 2012.
Past performance is no guarantee of future results.

Capacity Utilization High for Manufacturing (ex-Tech) Sector

We also think spending on industrial and "other" equipment, which includes service industry machinery, farm machinery and construction machinery, will hold its own for both cyclical and secular reasons. The first-quarter slowdown in the industrial and "other" segments of equipment and software spending is at least partly a lagged response to the manufacturing slowdown that ended in the fourth quarter of 2011. These sectors were also some of the biggest beneficiaries of the accelerated depreciation, which ended at year end. While investment decisions do have a tax component, for these sectors the primary driver, in our view, is the feedback effects from economic activity both at home and abroad. This is evident in the year-to-date performance of capital goods industries in which those most exposed to the global slowdown have underperformed (Exhibit 4).

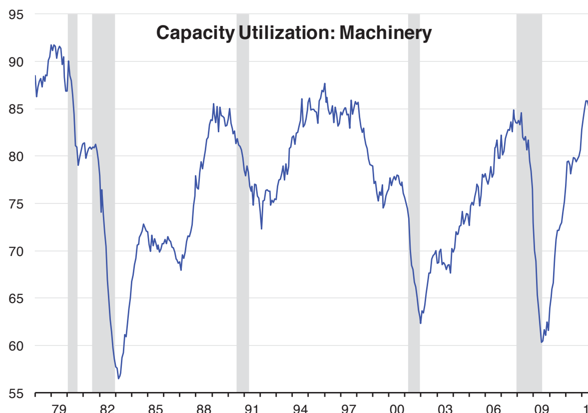
EXHIBIT 4: S&P 500 INDUSTRIALS YEAR-TO-DATE PERFORMANCE.

Industrial-Capital Goods Year-to-Date December 31, 2011 through July 10, 2012	
Building Products	+29.9%
Industrial Conglomerates	+9.3%
Aerospace & Defense	+2.0%
Industrial Machinery	+0.9%
Electrical Equipment	+0.2%
Construction & Engineering	-3.8%
Trading Companies & Distributors	-5.0%
Construction and Farm Machinery	-7.5%

Source: S&P/Haver Analytics.
Data as of July 10, 2012.
Past performance is no guarantee of future results.

The domestic data have also slowed more recently, but the strength of the manufacturing recovery over the last few years (versus the weaker service sector) has pushed capacity utilization rates to historically high levels in many of the durable goods industries (Exhibit 5). In order to slow the pace of capacity utilization growth, investment in equipment will have to continue over the medium term even in a slower demand/production environment. Looking ahead, a continuation of the improving trend in housing data and/or a broader acceleration in activity would provide an added boost.

EXHIBIT 5: CAPACITY UTILIZATION VERY HIGH FOR MACHINERY.



Source: Conference Board/Haver Analytics.
Data as of July 10, 2012.
Past performance is no guarantee of future results.

Lastly, while the catch-up phase for CAPEX is over, broadly speaking, we still think there is some pent-up demand for transportation equipment. Fleet sales appear to be holding up with overall light vehicle sales, and aircraft and parts orders were up 5.3% in May. A sustained pickup in housing would also help this sector, as contractors should look to replace aging business vehicles.

Economic Reports in Brief

Jonathan W. Kozy
Vice President and Senior Research Analyst

Highlights: Employment data were mixed. Initial claims for unemployment insurance fell but the Conference Board's Employment Trends Index, a leading indicator, was slightly weaker. Small businesses continue to struggle with sales and were less optimistic, according to the most recent NFIB survey. Consumers, on the other hand, were more comfortable taking on new debt in May as revolving credit (credit cards) jumped for the month. Consumer confidence fell slightly (July data), but the level is slightly above its average for the recovery.

NFIB Small Business Optimism Index: The NFIB Small Business Optimism Index fell 3.0 points in June to 91.4. The high for the recovery is 94.5. The decline was broad-based as eight out of 10 components moved lower. Small businesses continue to report that "poor sales" and "taxes" are their biggest problems. On a positive note, albeit a small one, a smaller percentage of firms were reporting that credit was harder to get, perhaps as a result of easier monetary policy and/or a turn in house prices.

EXHIBIT 6: SPANISH RATES DOWN AND GERMAN RATES UP SINCE SUMMIT

National Federation of Independent Business (NFIB) Survey

	Current	Last	November 2004	March 2009
Small business optimism index	91.4	94.4	107.7	81.0
% of firms expecting higher real sales in 6 months, net	-3.0	2.0	35.0	-31.0
% of firms planning to increase employment, net	3.0	6.0	19.0	-10.0
% of firms planning capital expenditures in 3-6 mos., net	21.0	24.0	30.0	16.0
% of firms expecting the economy to improve, net	-10.0	-2.0	47.0	-22.0
% of firms reporting credit harder to get, net	7.0	9.0	3.0	12.0
Single-most important problem: taxes, % reporting	21.0	22.0	17.0	22.0
Single-most important problem: poor sales, % reporting	23.0	20.0	9.0	31.0

Source: Financial Times/Haver Analytics.
Data as of July 2, 2012.

Consumer Credit Outstanding: Consumers appear to be more comfortable taking on debt. For the three months ending in May, consumer installment credit, or debt taken on by individuals that is not secured by real estate, grew at a 6.5% annual rate, up from a 5.1% annual rate in April. The increase of $17.1 billion in May (versus April) was well above consensus expectations for an $8.5 billion increase. Revolving credit outstanding (credit cards) surged $8.0 billion, while nonrevolving credit outstanding (for example, student loans and auto loans) rose $9.1 billion. Consumer installment credit relative to personal income is a lagging indicator of economic activity. The ratio moved higher, albeit very slightly, for the third straight month in May.

Employment Data: Employment data were mixed. The Conference Board Employment Trends Index (ETI), a leading indicator, fell 0.6% to 107.473. The index is nearly flat since February (down slightly) and suggests weak labor market conditions are likely to persist. The June figure is up 0.3% over the last three months, 1.7% over the last six months and 5.6% from the same month a year ago. Four out of the eight components improved for the month. Initial claims for unemployment insurance, one component of the ETI, is off to a good start in July. Initial claims fell 26,000 to 350,000, the lowest level since March 2008, and the four-week moving average fell nearly 10,000. Seasonal adjustments are volatile in July. Auto factories often shut down for two weeks to retool for the new model year, but a number of auto companies announced that they were keeping plants open this year to meet increased demand. Continuing claims for unemployment insurance fell 14,000 for the week ending June 30, but the four- week moving average ticked slightly higher.

The Bureau of Labor Statistics (BLS) data on Job Openings and Labor Turnovers (JOLTS) for May were mixed. The data arrive with a significant lag but are useful in providing additional information on employment dynamics. For May, job openings rose 195,000 and hires rose 148,000. Total separations, however, jumped 207,000 and the increase was mostly due to a rise in layoffs and discharges (up 142,000). Voluntary quits were up only 6,000 after falling 45,000 in April. The weak level of voluntary quits is a sign of weakness.

University of Michigan Survey of Consumer Confidence: The University of Michigan's Index of Consumer Sentiment (preliminary reading) fell 1.2 points to 72.0 in July, slightly below consensus expectations. While the "Current Economic Conditions" component rose 1.7 points, the "Expectations" component fell 3.0 points.

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Portfolio Positioning

Investment Strategy Committee

Portfolio strategy and asset allocation

- We do not expect a global recession. Political paralysis in the U.S. and European policy dysfunction are keeping a lid on an otherwise healthy U.S. economy, for now. In Europe, some progress is likely in the next few weeks, in our view.
- The recent pickup in U.S. housing data is particularly encouraging, while lower gasoline prices are supporting consumers across the globe.
- We are market weight equities but are bullish over the medium term (three years) and are looking for opportunities to upgrade equities.
- Within domestic equities, we remain overweight large caps due to their greater exposure to global growth and are neutral small cap and mid cap equities.
- We continue to expect the U.S. market to outperform the Eurozone and Japanese markets, as macroeconomic headwinds are more severely restraining growth and profits in those regions. Thus, we remain underweight international developed equities. We remain overweight emerging markets relative to strategic benchmarks, mainly based on valuation.
- We remain underweight fixed income. Within fixed income, we continue to prefer credit over Treasuries, with an emphasis on investment-grade and high-yield corporate bonds, mortgage-backed securities (MBS), and specific non-U.S., non-European sovereign bonds for their yield and currency advantages. Within fixed income-only accounts, we recommend shifting some percentages from Treasuries and agencies to corporate high-yield credit.
- We remain neutral on commodities as an asset class. The fundamental forces behind the commodity bull market remain intact, including strong global growth trends in emerging markets and lower-than-normal real interest rates across the globe. However, in the near term, commodities are vulnerable to the recession "winds" blowing from Europe. We will look for more attractive valuation levels to increase our tactical weightings.
- Our macro view implies that the dollar has ended its downtrend against other major (rich country) currencies and even has the potential to rise substantially against the euro and yen. Commodity currencies (Canada and Australia) remain the most likely to prove an exception. The macro view (global rebalancing) provides the most scope for emerging Asian currencies to rise against the dollar.
- Global rebalancing should create significant opportunities for long/short, distressed debt, and event-driven managers in the hedge fund space. We remain neutral weight with a focus on managers of diversified strategies who invest in liquid securities, understand the drivers of balance sheet repair around the world, and use leverage responsibly.
- We are neutral private equity and recommend vintage year diversification among managers who have a strong track record in the full private equity cycle over multiple market cycles, from fundraising to deal sourcing to exit.
- We remain underweight real estate as an asset class, given our preference for other assets.

Macro strategy

- Political paralysis in the U.S. and European policy dysfunction are keeping a lid on an otherwise healthy U.S. economy. Perhaps the election will resolve the standoff among U.S. politicians. Until then, the business community is likely to remain cautious.
- The recent pickup in residential investment in the U.S. and the stabilization of home prices, which look set to post a small gain for 2012, are particularly important for consumer spending and the next leg of the U.S. economic recovery. Lower gasoline prices also help.
- As expected, the Federal Reserve Open Market Committee (FOMC) voted on June 20 to continue its maturity extension program known as "Operation Twist" through the end of 2012. The Federal Reserve needs to see more deflation risk before committing to additional quantitative easing (QE3).
- In Europe, policymakers are moving toward resolution of some key issues. The European Central Bank (ECB) is likely to reward them with some significant relief.
- Since last autumn, China has reversed its policy course and started to ease by cutting reserve requirements and increasing infrastructure spending to soften the slowdown. On June 7, it cut interest rates for the first time since 2008. This reinforces our view that China is at the tail end of its cyclical slowing and will be picking up steam in the next few months. Other emerging markets, like Brazil, are much further along in their rate-cutting cycles and should be feeling stimulative effects going forward.

ECONOMIC AND MARKET FORECASTS (AS OF JUNE 29, 2012)

	Q4 2011	Q1 2012 e	Q2 2012 e	2011	2012 e	2013 e
Real Global GDP (% y/y annualized)				3.8	3.0 – 4.0	3.5 – 4.5
Real U.S. GDP (% q/q annualized)	3.0	2.2	2.0 – 2.3	1.7	2.0 – 2.5	2.5 – 3.5
CPI inflation (% y/y)*	3.1	3.3	2.8 – 3.2	3.1	2.0 – 3.0	1.5 – 2.5
Core CPI inflation (% y/y)*	1.7	2.2	1.8 – 2.2	1.7	1.0 – 2.0	1.0 – 2.0
Unemployment rate, period average (%)	8.7	8.3	8.2	9.0	8.0	7.0 – 7.5
Fed funds rate, end period (%)	0.12	0.12	0.12	0.12	0.12	0.12
10-year Treasury, end period (%)	1.88	2.21	165	1.88	2.0 – 2.5	2.0 – 3.0
S&P 500, end period	1258	1408	1362	1258	1300 – 1400	1350 – 1450
S&P operating earnings ($/share)	24	24.9	25 – 26	96.5	97 – 101	101 – 106
$/€, end period	1.30	1.33	1.27	1.30	1.15 – 1.25	1.10 – 1.20
¥/$, end period	77	83	80	77	78 – 83	85 – 90
Oil ($/barrel), end period	99	103	85	99	85 – 120	85 – 120

Percent calendar year average over calendar year average annualized unless stated. "e" = Estimate.

*Latest 12-month average over previous 12-month average.

Past performance is no guarantee of future results.

Economic or financial forecasts are inherently limited and should not be relied on as an indicator of future investment performance.

Source: U.S. Trust Investment Strategy Committee.

ASSET ALLOCATION TABLE (AS OF JUNE 26, 2012)

ASSET CLASS	ALLOCATION		WEIGHTING*
Cash	**Positioning**	We remain overweight in cash as we remove some equity risk in our portfolios.	**OVERWEIGHT**
Equities	**Positioning**	We are maintaining a neutral weight in equities.	**NEUTRAL**
	Emphasis	▪ We prefer U.S. equities over non-U.S.-developed equities. Exceptions are commodity currency countries (Canada and Australia). ▪ We remain overweight large cap U.S. equities and are neutral weight small cap and mid cap U.S. equities versus our policy benchmarks. ▪ We have adjusted emerging market equities slightly lower earlier in the year, but we remain overweight relative to strategic benchmarks.	
Fixed Income	**Positioning**	We remain underweight fixed income compared to asset classes such as equities.	**UNDERWEIGHT**
	Emphasis	▪ We continue to prefer spread products over Treasuries with an emphasis on investment-grade and high-yield corporate bonds, as well as mortgage-backed securities.	
Commodities	**Positioning**	The fundamental forces behind the commodity bull market remain intact, including strong global growth trends in emerging markets and lower-than-normal real interest rates across the globe.	**NEUTRAL**
	Emphasis	▪ We favor a diversified mix of commodity exposure.	
Hedge Funds	**Positioning**	We are maintaining a neutral weight in hedge funds on a strategic basis.	**NEUTRAL**
	Emphasis	▪ We favor long/short strategies, distressed strategies and global macro.	
Private Equity	**Positioning**	Use a staged approach gaining vintage-year and global diversification over time.	**NEUTRAL**
	Emphasis	▪ From a sector perspective, we are optimistic on credit strategies, secondary funds, and infrastructure.	
Real Estate	**Positioning**	We remain underweight real estate given our preference for other assets.	**UNDERWEIGHT**
	Emphasis	▪ We prefer opportunistic and value sectors, given adverse market conditions.	

*Tactical qualitative investment strategy weightings are relative in nature versus the full portfolio. Weightings are based on the relative attractiveness of each asset class. Tactical strategy weightings are for a 12-month time horizon.

Because economic and market conditions change, recommended allocations may vary in the future. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon and risk tolerance. Not all recommendations will be suitable for all investors.

Alternative investments such as derivatives, hedge funds, private equity funds and funds of funds can result in higher return potential, but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity and your tolerance for risk.

Source: U.S. Trust Investment Strategy Committee.

U.S. EQUITY INDEXES (TOTAL RETURN, PERCENT CHANGE)

	CLOSE 7/13/2012	LAST WEEK	MTD	YTD	LAST 12 MONTHS	TRAILING 12-MO. P/E	GROSS DIV 12-MO. YLD.
Dow Jones Indstrl Avg.	12,777.09	0.00	-0.71	6.07	5.14	12.97	2.62
S&P 400 MidCap	942.68	-	0.15	8.06	-2.60	17.31	1.67
S&P 500	1,356.78	0.17	-0.31	9.15	5.28	13.70	2.10
S&P 600 SmallCap	447.38	-	0.47	8.49	0.52	20.62	1.43
Nasdaq Composite	2,908.47	-	-0.88	12.32	5.20	16.09	1.12
Russell 1000	747.68	0.00	-0.31	9.06	4.20	14.17	2.05
Russell 1000 Growth	632.07	-	-0.31	9.74	4.69	17.15	1.61
Russell 1000 Value	668.93	-0.40	-0.32	8.33	3.62	12.04	2.50
Russell Midcap	1,037.32	-	-0.67	7.49	-1.67	16.85	1.77
Russell Midcap Growth	468.64	-	-0.76	7.28	-3.55	20.58	1.22
Russell Midcap Value	1,056.39	-	-0.59	7.14	-0.38	14.46	2.27
Russell 2000	800.99	-	0.35	8.91	-2.89	31.17	1.56
Russell 2000 Growth	461.16	-	0.11	8.94	-3.88	43.23	0.86
Russell 2000 Value	1,054.66	-	0.59	8.87	-1.88	24.41	2.26

U.S. EQUITY SECTORS (TOTAL RETURN, PERCENT CHANGE)

10 GLOBAL INDUSTRY CLASSIFICATION STANDARD SECTORS	INDEX WEIGHT	LAST WEEK	MTD	YTD	LAST 12 MONTHS	TRAILING 12-MO. P/E	GROSS DIV 12-MO. YLD.
Consumer Disc.	10.95	-0.40	-0.29	12.62	9.42	16.78	1.59
Consumer Staples	11.51	1.10	1.68	10.40	16.01	17.34	2.83
Energy	10.88	0.74	0.39	-1.97	-8.02	10.19	2.13
S&P 500	**100.00**	**0.17**	**-0.31**	**9.15**	**5.28**	**13.70**	**2.10**
Financials	14.51	1.64	0.47	14.25	0.06	11.85	1.88
Health Care	12.05	1.36	-1.00	11.34	10.46	13.41	2.15
Industrials	10.26	-0.92	-1.36	4.92	-2.46	13.46	2.45
Info. Tech.	19.45	-1.66	-0.47	10.94	10.40	14.05	1.11
Materials	3.37	-1.21	-0.35	4.87	-9.28	13.25	2.32
Telecom Services	3.25	0.73	0.81	18.31	17.89	22.11	4.75
Utilities	3.78	1.52	-0.45	5.94	16.52	14.92	3.85

INTERNATIONAL MARKETS (TOTAL RETURN, PERCENT CHANGE)

	CLOSE 7/13/2012	LAST WEEK	MTD	YTD	LAST 12 MONTHS
MSCI AC World	133.04	-0.51	-0.80	4.81	-6.54
MSCI EAFE	3,608.40	-0.75	-1.40	1.52	-13.63
MSCI Europe	4,045.45	0.26	-1.40	0.97	-14.88
MSCI Pacific	3,793.77	-2.54	-1.45	2.66	-10.97
MSCI EM	366.85	-2.02	-0.99	2.90	-16.29
MSCI AC Asia ex Japan	294.28	-2.82	-1.03	4.87	-14.11

CURRENCY SPOT RETURN PERFORMANCE AGAINST THE U.S. DOLLAR (PERCENT CHANGE)

CURRENCY	CLOSE 7/13/2012	LAST WEEK	MTD	YTD	LAST 12 MONTHS	90-DAY BOND YLD.
Australian Dollar	1.02	0.13	-0.12	0.17	-4.95	3.29
Brazilian Real	2.04	-0.44	-1.36	-8.36	-22.66	7.76
Canadian Dollar	1.01	0.53	0.24	0.70	-5.52	0.87
Swiss Franc	0.98	-0.32	-3.24	-4.31	-16.59	0.00
Euro	1.22	-0.34	-3.30	-5.49	-13.54	-0.01
British Pound	1.56	0.52	-0.83	0.21	-3.30	0.36
Japanese Yen	79.18	0.61	0.78	-2.87	-0.25	0.10
South Korean Won	1,150.20	-1.06	-0.42	0.20	-7.80	2.97
Singapore Dollar	1.26	0.58	0.02	2.51	-3.71	0.26

U.S. GOVERNMENT BONDS (GENERIC, CHANGE IN YIELD)

	YIELD 7/13/2012	LAST WEEK	YEAR-TO-DATE	LAST 12 MONTHS
90-day T-bill	0.10	0.02	0.08	0.09
Two-year Treasury	0.25	-0.02	0.00	-0.12
Five-year Treasury	0.63	-0.01	-0.20	-0.82
10-year Treasury	1.52	-0.05	-0.37	-1.40
10-year TIPS (real)	-0.64	-0.06	-0.51	-1.14

BOND INDEXES (BARCLAYS CAPITAL, TOTAL RETURN, PERCENT CHANGE)

	YIELD TO WORST 7/13/2012	LAST WEEK	MTD	YTD	LAST 12 MONTHS
Corporate & gov't.	1.64	0.43	1.07	3.75	8.43
Broad corporate	3.09	0.71	1.62	6.35	9.44
Non-investment- grade	7.16	0.20	0.76	8.08	7.43
Treasury bills	0.12	0.00	0.01	0.05	0.08
Treasury notes and bonds	0.83	0.28	0.82	2.34	8.49
Agencies	0.82	0.14	0.40	1.65	4.09
Mortgages	2.19	0.26	0.56	2.22	4.94
Municipals	2.35	0.63	0.85	4.54	10.06
Global gov't., ex-U.S.	1.60	0.53	-0.07	0.12	0.53
U.S. Aggregate	1.83	0.38	0.90	3.30	7.25
Global Emerging Markets	5.12	0.90	1.82	8.77	8.59
Global Aggregate ex-USD	1.87	0.45	-0.32	0.45	-0.60

COMMODITIES (PRICE RETURN, PERCENT CHANGE)

DOW JONES-UBS COMMODITY INDEX & THE UNDERLYING COMMODITIES	LAST WEEK	YTD	LAST 12 MONTHS
Corn	6.82	26.27	15.98
Coffee	5.47	-20.55	-31.00
Wheat	5.15	20.81	5.08
RBOB Gasoline	3.69	4.80	-6.00
Natural Gas	3.53	-12.27	-40.52
Crude Oil	3.14	-12.15	-15.19
Soybeans	3.10	28.92	15.34
Heating Oil	2.89	-1.95	-11.29
Cotton	2.89	-17.28	-24.70
Copper	2.77	1.27	-20.63
Dow Jones Commodity Index*	**2.53**	**-0.20**	**-14.72**
Sugar	2.16	-0.44	-8.53
Silver	1.67	-2.35	-28.23
Zinc	1.63	1.57	-20.63
Gold	0.83	1.16	-0.13
Aluminum	0.74	-5.45	-24.00
Soybean Oil	0.57	3.35	-8.69
Nickel	0.03	-13.66	-32.62
Live Cattle	-1.78	-5.41	-1.66
Lean Hogs	-3.37	-5.22	-5.84

(*Total return index)

Past performance is no guarantee of future results.

Sources: Bloomberg; FactSet; U.S. Trust Market Strategy Team.
Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses.
It is not possible to invest directly in an index.

Index Definitions

SECURITIES INDEXES ASSUME REINVESTMENT OF ALL DISTRIBUTIONS AND INTEREST PAYMENTS. INDEXES ARE UNMANAGED AND DO NOT TAKE INTO ACCOUNT FEES OR EXPENSES. IT IS NOT POSSIBLE TO INVEST DIRECTLY IN AN INDEX.

The Barclays Bond Indexes are used as performance benchmarks in each respective category of U.S. debt issuances.

The Barclays Capital U.S. Aggregate Index is an unhedged market capitalization-weighted index of the total U.S. investment grade bond market.

The Barclays Capital U.S. Corporate High Yield Bond Index is an unmanaged, market value-weighted index, which covers the U.S. non-investment grade fixed-rate debt market. The index is composed of U.S. dollar-denominated corporate debt in industrial, utility and finance sectors with a minimum $150 million par amount outstanding and a maturity greater than 1 year.

The Bloomberg International Debt Index represents open-end, international debt funds domiciled in the U.S.

The BofA Merrill Lynch US 3-Month Treasury Bill Index consists of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. While the index will often hold the Treasury Bill issued at the most recent 3-month auction, it is also possible for a seasoned 6-month Bill to be selected.

The BofA Merrill Lynch 10-15 Year US Treasury Index is a subset of The BofA Merrill Lynch US Treasury Index including all securities with a remaining term to final maturity greater than or equal to 10 years and less than 15 years.

The BOVESPA—BOVESPA is a total-return index weighted by traded volume and comprises most liquid stocks traded on the Sao Paulo Stock Exchange.

The Chicago Board Options Exchange OEX Volatility Index (VIX) reflects a market estimate of future volatility, based on the weighted average of the implied volatilities of eight OEX calls and puts—the nearest in and out of the money call and put options from the first- and second month expirations.

The Commodity Research Bureau (CRB) Commodity Index is a measure of price movements of 22 sensitive basic commodities whose markets are presumed to be among the first to be influenced by changes in economic conditions. The commodities used are in most cases either raw materials or products close to the initial production stage which, as a result of daily trading in fairly large volume of standardization qualities, are particularly sensitive to factors affecting current and future economic forces and conditions.

The Commodity Research Bureau (CRB) Food Index is a measure of price movements of basic foodstuffs whose markets are presumed to be among the first to be influenced by changes in economic conditions.

The Conference Board Leading Economic Index (LEI)—Leading Indexes generally signal activity/output in the coming 3-6 months. Relevant indicators include manufacturers' new orders, average weekly hours, vendor performance, initial unemployment insurance claims, building permits, money supply (M2), consumer expectations, stock market prices, and interest rate spreads.

The Dow Jones Commodity Index is composed of futures contracts on 19 physical commodities. It reflects the return on fully collateralized future positions. It is quoted in USD.

The Dow Jones Industrial Average Index, the most widely used indicator of the overall condition of the stock market, is a price-weighted average of 30 actively traded blue-chip stocks as selected by the editors of The Wall Street Journal.

The Dow Jones U.S. Select Aerospace & Defense Index measures manufacturers, assemblers and distributors of aircraft and aircraft parts primarily used in commercial or private air transport, and producers of components and equipment for the defense industry, including military aircraft, radar equipment and weapons. The index is weighted by float-adjusted market capitalization.

The Euro STOXX 50 (price) Index is a free-float market capitalization-weighted index of 50 European blue-chip stocks from those countries participating in the European Monetary Union.

The FactSet World Aggregate Indexes are time-series composite indexes based on proprietary country, region, sector, and industry classification.

Indexes are all based in dollars.

The J.P. Morgan EMBI Global Index tracks total returns for traded external debt instruments in the emerging markets.

The Morgan Stanley Capital International (MSCI) Australia Index is a broad-based index that tracks the performance of Australian stocks.

The Morgan Stanley Capital International (MSCI) Canada Index is a broad-based index that tracks the performance of Canadian stocks.

The Morgan Stanley Capital International (MSCI) Emerging Asia Index is a capitalization weighted index that monitors the performance of stocks from the emerging Asia region.

The Morgan Stanley Capital International Europe, Australasia, Far East (MSCI EAFE) Index is a capitalization-weighted index that tracks the total return of common stocks in 21 developed-market countries within Europe, Australasia and the Far East.

The Morgan Stanley Capital International (MSCI) Europe Index is a broad-based index that tracks the performance of European stocks.

The Morgan Stanley Capital International (MSCI) Pacific Index is a free float-adjusted market capitalization-weighted index designed to measure equity market performance of developed markets in the Pacific region.

The MSCI AC (All Country) Asia ex Japan Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan.

The MSCI ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of May 30, 2011, the MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

The Mumbai Sensex—The Mumbai Stock Exchange Sensitive Index is a cap-weighted index.

The Nasdaq Composite Index is a market capitalization price-only index that tracks the performance of domestic common stocks traded on the regular Nasdaq market as well as National Market System-traded foreign common stocks and American Depositary Receipts.

The OITP (Other important trading partners) index is a weighted average of the foreign exchange values of the U.S. dollar against a subset of currencies in the broad index that do not circulate widely outside the country of issue. The weights are derived by rescaling the currencies' respective weights in the broad index so that they sum to 1 in each sub-index.

The Philadelphia Federal Reserve Bank Business Outlook Index. The survey panel consists of 150 manufacturing companies in Federal Reserve District III (consisting of southeastern PA, southern NJ and Delaware.) The diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease.

The Reuters/Jeffries CRB Index is an arithmetic average of commodity futures prices with monthly rebalancing.

The RTSI—The Russian Trading System Index is a capitalization-weighted index that is calculated in U.S. dollars.

The Russell 1000 Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Index consists of the largest 1000 companies in the Russell 3000 Index. This Index represents the universe of large capitalization stocks with a base value of 130.00 as of December 31, 1986.

The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The index was developed with a base value of 135.00 as of December 31, 1986.

The Russell 1000 Value Index measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Growth Index measures the performance of those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index tracks the performance of those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

The Russell MidCap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value Index.

The Shanghai Composite—The Shanghai Stock Exchange Composite Index is a capitalization-weighted index.

The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization U.S. stocks.

The Standard & Poor's (S&P) 500 Financials Index is a capitalization-weighted index that tracks the Financials sector of the S&P 500, as denoted by the GICS.

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OTHER IMPORTANT INFORMATION

Past performance is no guarantee of future results.

All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon and risk tolerance. Not all recommendations will be suitable for all investors.

Diversification does not ensure a profit or protect against loss in declining markets.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments.

Investing in fixed income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice versa. Interest income from certain tax-exempt bonds may be subject to certain state and local taxes and, if applicable, the Alternative Minimum Tax (AMT).

International investing involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments

Investing in emerging markets may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility.

Stocks of small and mid cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established companies.

There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes, and the impact of adverse political or financial factors.

Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risks related to renting properties, such as rental defaults.

Alternative investments are intended for qualified and suitable investors only. Alternative investments are speculative and involve a high degree of risk. Alternative Investments such as derivatives, hedge funds, private equity funds, and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity, and your tolerance for risk.

Treasury bills are less volatile than longer term fixed-income securities and are guaranteed as to timely payment of principal and interest by the U.S. Government.

Dividend payments are not guaranteed. The amount of a dividend payment, if any, can vary over time.

Breakdown reflects ratings from Standard & Poor's, Moody's and/or Fitch Ratings. For additional information on ratings, please see www.standardandpoors.com, www.moodys.com, and/or www.fitchratings.com.

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