From the Desk of John Colley...

In Europe, the IMG leaves interest rates unchanged at 1% and offers renewed hopes of solidarity. European markets rally overnight by 1 to 2 ½%. Not everything is gloom and doom, but we must own up and accept these certain developments for what they mean and infer. It remains difficult to combat market uncertainty, but the markets have corrected and "baked in" some of the worst, and remained resilient despite some disorder.

- <u>The Politics of the Economy cannot be ignored</u>. The Presidential Race is heating up and getting more intense. Congress will be confronting the federal deficit/debt ceiling with an extension vote late in June. Expect budget proposals, spending cuts, and a dose of gridlock. In the Eurozone, politics have played a key role too.

- <u>Slower Economic Growth is not being well received</u>. The slo-mo is a real letdown (GDP growth was revised down to 1.9% from 2.2%), underscoring sluggishness.

- <u>Disappointing jobs growth</u> has anchored bullish sentiment and remains a contributing factor to slower consumer and business spending.

- Without many positive catalysts, <u>selloffs notoriously gather momentum in one direction</u>, creating an emotional downdraft that feeds on itself. The DJIA, S&P 500, Wilshire 1000, and the NASDAQ have experienced "official" correction levels (of 12-17% since 3/31/12 pricing). Many experts contend that the bottom is "in" and basing. It was actually the worst May in the last 75 years in terms of performance for US and European stocks.

- Is more <u>Qualitative Easing (QE3) on the horizon?</u>... watch Bernache around June 19th and 20th for more clues. Also, watch for Supreme Court decision (late June/July) on the Health Care Reform.

- The <u>Eurozone picture</u> has become a day-to-day wait and see struggle and has spelled UNCERTAINTY with many repercussions, some definitely unknown and hard to predict. We can expect this see-saw to continue and must remember that the fiscal pressures of dealing with crunch times for three years now actually show some resiliency overall as the 17 countries have somehow held together, despite lots of speculation and fracturing. Many astute analysts feel that the U.S. "hooked at the hip" connection to Europe is overdone. Thanks to efforts by Merkel and others, a solution could evolve, but the scare remains what if Greece leaves the zone, thus setting up an exit precedent for other countries. <u>This contagion effect remains the unknown</u>.

- <u>China's slowdown</u> is a fairly new wrinkle. Despite the Chinese government stated goals/efforts to deliberately slow down GDP because it has been causing unwanted 5-7% inflation, this has been used by the bears to frighten investors. The reaction might be an overshot.

- <u>Stock P/E numbers</u>, a key measure of fundamental and intrinsic value, are at 25 year low-points in all sectors <u>except financial, pure retail, insurance, and power utilities</u>. This underlying fact, along with the all-time low borrowing costs, are bullish signs.

- The quality of earnings for Corporate America remains “on the improve” in terms of fundamentals, balance sheets, and dividend growth. This is an integral part of an improving economic backbone. 43% percent of the S&P 500 raised dividends in the last year.

- When Consumer Staples/goods and services along with food and beverage outperform... the recovery is still alive. Technology and Energy, known to be the higher beta picks, have probably oversold and should rebound.

- If possible, we will try to accept the irregular recovery for what it is and remember the crosscurrents will change but create an unevenness of data and sentiment for the market to react. We can expect spikes and pullbacks to typify our economic landscape for some time to come.

JC
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