Monthly Economic Update & Market Review July 2011

Investment Strategy Committee

as of
July 1, 2011

BMO Asset Management U.S.
M&I Investment Management Corp.

MARSHALL FUNDS

SEPARATE ACCOUNT STRATEGIES

ASSET ALLOCATION STRATEGIES

ALTERNATIVE INVESTMENTS

BMO Global Asset Management

Summary of Current Views:

The challenge in writing a brief overview in the current environment is being brief. There seems to be an unusually high number of cross currents, currently, between the pace of economic growth, market volatility, and political uncertainty. Investors are confused and anxious. We hear it in the questions we're asked each day. A general concern centers on growth. While the economy is growing, the recent pace has clearly been disappointing; to the point that some wonder if another recession is likely. Our view is, no. Without an unexpected external shock to the system, we don't see it. While there are still remnants of the leverage and excesses that pushed the economy over the edge into recession, significant corrective forces, both market and regulatory, have minimized the risk of history repeating itself, near term. And while it doesn't help when the Fed Chairman admits to not having a "precise read on why the slower pace of growth is persisting," as he did in a recent news conference, he did suggest that several of the moderating forces were temporary; a view to which we subscribe. Growth in the second half of the year should be better, but unfortunately still constrained by the post-crisis laws of physics, where structural headwinds continue to limit how fast we can run.

Debt – both here and abroad -- is another investor concern. While Greece grabs the headlines, contagion is the fear. How far do the tentacles of the Greek debt crisis reach? All the way to U.S. prime money market funds due to their exposure to European banks, as some fear? Sorry, but we're not buying this one either. While the financial crisis taught us all about global interconnectivity and unexpected correlations, the exposure to Greece among the larger banks is simply too small relative to their capital base, in our view, for undue concern; not to mention the tighter regulatory restrictions placed on money funds post-crisis. We understand investor concerns, but we're encouraged by the resolve of the Greek parliament. In the face of rioting and strikes, they agreed to even stricter austerity measures, paving the way for additional funding from the EU and the IMF. This buys all parties more time to address the $91B in Greek debt that will mature over the next three years. While Europe continues to struggle with their issues, here at home the U.S. debt ceiling limit must be extended by August. While negotiations are contentious, a Treasury default is nearly inconceivable. Make no mistake, it's a very serious issue, but we believe the key players in this negotiation know that. No one wants to find out what the cost and consequences of not reaching an agreement might be, which makes us optimistic that we won't.

So, what of the financial markets? Well, accounting for one's individual risk tolerance, and in spite of the recent market pullback, we continue to emphasize ownership (stocks) over lending (bonds) in our portfolios. The opportunities are skewed in favor of equities, particularly given the low starting point for interest rates and the uncertainty surrounding the end of QE2. Yet, we know for many of our clients the desire for income, from dividends and/or coupons, and less volatility is also important. We're confident your advisor can help blend our latest market-related views with your investment needs quite nicely, even amid this uncertainty.

The current environment - at a glance…

Spotlight – pg 5 This month we take a closer look at the Greek debt crisis and specifically the risk to European banks. While investors and policymakers fear that a Greek default could lead to contagion risk, Greece's approval of new austerity measures will provide additional funding. And, the exposure of core European banks to Greece debt is a small fraction of their capital base.	**Large Cap Equities – pg 10** The S&P 500 Index fell 1.7% in June as every sector ended lower. 2011 performance continues to reflect 2010 in terms of both the timing and magnitude of market movements. Financials were the worst performing sector in part due to negative headlines. The market had fallen for six consecutive weeks before rebounding, another historical pattern.
U.S. Economic Growth and Inflation– pg 6 Clearly the U.S. economy has slowed in recent months, in part due to temporary factors. As the impact of higher gas prices and Japanese supply disruptions fade growth should improve, albeit modestly. At the same time, inflation pressures are likely to moderate as well as commodity prices slow.	**Mid- and Small-Cap Equities – pg 11** Small-caps trailed both large- and mid-caps during the month on fears of economic slowing, but rebounded into month-end. The Energy and Materials sectors lagged, while Consumer Staples and Utilities did the best. The Russell Mid-Cap Index continues to lead the YTD returns, up 9.6%.
Employment – pg 7 In May private payrolls grew by a disappointing 83,000 while the government sector lost 29,000. Government jobs, historically an engine of growth, continue to shrink in this cycle. Also, while the ratio of the number of unemployed per job opening is improving, structural challenges are keeping it elevated.	**Fixed Income, Taxable – pg 12** Treasury yields rallied through most of June but sold off sharply in the last week and were higher for the month. Investment grade supply fell and spreads widened by 7 bps. High yield spreads widened 34 bps in the month and are now wider than where they started the year.
Housing – pg 8 Despite modest signs of optimism in locations with stronger regional economies, broad housing data remains weak. New and existing home sales slid last month as did prices when seasonally adjusted. Distressed inventory remains large and the pace of foreclosure sales is modest.	**Fixed Income, Tax-exempt – pg 13** Tax exempt yields held firm throughout the month as heavy seasonal reinvestment demand continued to exceed light new supply. Credit spreads are particularly wide even as fears of default are fading. Low nominal yields are encouraging investors to extend maturities and trade down in quality.
International – pg 9 Europe news dominated as key decisions were made regarding Greek debt. It appears time and additional funding has been extended to avert a crisis. Meanwhile, Japan's industrial production has risen sharply. And China's tightening cycle may be slowing if inflation pressures peak soon, as expected.	**Alternatives – pg 14** The International Energy Agency announced a surprise release of 60 million barrels of oil to offset lost Libyan production. It served to pushed prices down only modestly. Gold also fell in spite of concerns over Greece and the euro. Multi-family REITs have done especially well as rental demand strengthens.

Monthly Performance Review

Equity Indices	11-Jun	3-Mos.	6-Mos.	YTD	12-Mos.	3-Yrs	5-Yrs
S&P 500 Index	(1.67)	0.10	6.02	6.02	30.69	3.34	2.94
Dow Jones Industrials Index	(0.08)	1.42	8.59	8.59	30.37	6.09	4.97
NASDAQ Composite	(2.18)	(0.27)	4.55	4.55	31.49	6.55	5.01
Russell 1000 Index	(1.75)	0.12	6.37	6.37	31.93	3.68	3.30
Russell 1000 Growth Index	(1.43)	0.76	6.83	6.83	35.01	5.01	5.33
Russell 1000 Value Index	(2.05)	(0.50)	5.92	5.92	28.94	2.28	1.15
Russell MidCap	(2.09)	0.42	8.08	8.08	38.47	6.46	5.30
Russell MidCap Growth Index	(1.60)	1.61	9.59	9.59	43.25	6.58	6.28
Russell MidCap Value Index	(2.57)	(0.69)	6.69	6.69	34.28	6.35	4.01
Russell 2000 Index	(2.31)	(1.61)	6.21	6.21	37.41	7.77	4.08
Russell 2000 Growth Index	(2.14)	(0.59)	8.59	8.59	43.50	8.35	5.79
Russell 2000 Value Index	(2.46)	(2.65)	3.77	3.77	31.35	7.09	2.24
MSCI EAFE Index	(1.25)	1.56	4.98	4.98	30.36	(1.77)	1.48
MSCI Emerging Mkts Index	(1.54)	(1.15)	0.87	0.87	27.79	4.22	11.42
Alternative Indices	11-Jun	3-Mos.	6-Mos.	YTD	12-Mos.	3-Yrs	5-Yrs
DJ UBS Commodity Index	(5.04)	(6.73)	(2.58)	(2.58)	25.91	(11.87)	(0.05)
DJ Wilshire REIT Index	(3.35)	3.88	10.88	10.88	35.57	10.68	2.90

Source: Dow Jones; Barclays Capital; Russell Investments; Bloomberg

Note: Highlighted items represent either the best or worst performance for the period within the asset class

Monthly Performance Review

Fixed Income Indices	11-Jun	3-Mos.	6-Mos.	YTD	12-Mos.	3-Yrs	5-Yrs
Barclays Aggregate Index	(0.29)	2.29	2.73	2.73	3.90	6.46	6.52
Barclays G/C Interm. Index	(0.47)	1.81	2.15	2.15	3.46	5.65	6.02
Barclays US Treasury Index	(0.34)	2.38	2.22	2.22	2.23	5.10	6.21
Barclays High Yield Index	(0.97)	1.03	4.95	4.95	15.60	12.67	9.29
Barclays 1-10-yr Muni Index	0.15	2.54	3.23	3.23	3.68	5.55	5.22

Month-end Market Levels

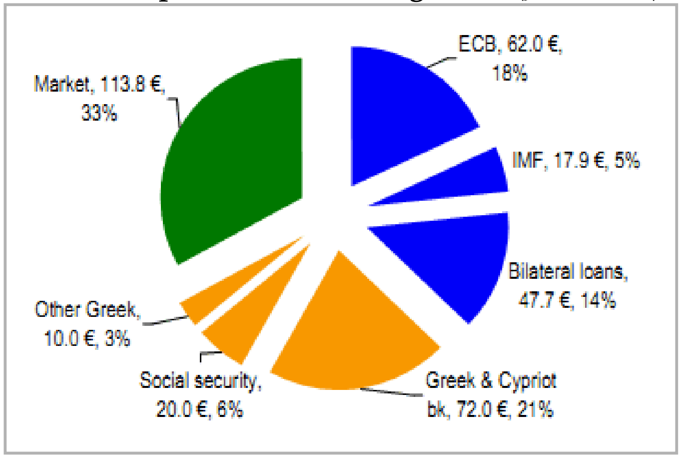
Bond Yields	11-Jun	11-May	11-Mar	10-Dec	10-Jun
Fed Funds Rate	0.13	0.13	0.13	0.13	0.13
3-month T-bill yields	0.01	0.05	0.09	0.12	0.18
2-yr Treasury yields	0.46	0.47	0.82	0.59	0.61
5-yr Treasury yields	1.76	1.70	2.28	2.00	1.78
10-yr Treasury yields	3.16	3.06	3.47	3.29	2.93
5-yr Agency	2.02	1.88	2.49	2.20	2.12
5-yr A-rated ML Corp Master	3.38	3.19	3.67	3.63	3.71
5-yr AAA Muni yields	1.28	1.23	1.77	1.63	1.66
Other Markets	11-Jun	11-May	11-Mar	10-Dec	10-Jun
WTI Crude Oil ($/bbl)	95.42	102.70	106.72	91.38	75.63
Gold (US$/troy oz)	1502.80	1536.80	1432.30	1421.40	1,239.30
US$/Euro	1.45	1.44	1.42	1.34	1.22

Source: Dow Jones; Barclays Capital; Russell Investments; Bloomberg

Spotlight: Greece and European Banks

Greece's Debt / GDP ratio at end of 2010 was 144%. It is expected to reach 160% by 2012. At this point, the market expects some type of debt restructuring to occur, but the timing is unclear. While investors seem to think it may happen within the next year, EU officials want push it off to 2014 or beyond. The EU is concerned that if a restructuring occurs that would trigger a default, as defined in contracts that insure against loss (CDS), it could lead to contagion with Portugal, Ireland and possibly Spain also seeking a debt restructuring. It's this fear that drives policymakers to make tough decisions. The new fiscal and austerity plans for Greece are examples of just such difficult decisions, but their recent passage by the Greek parliament now paves the way for additional financial assistance. According to the European Central Bank (ECB), "voluntary" debt rollover will not be treated as a default by the rating agencies, but this could change. The French Banking Association has proposed a plan that involves reinvesting 70% of maturing Greek sovereign debt between 2011 - 2014. Initial reports suggests that German financial institutions will follow a similar plan.

Ownership of Greek Sovereign Deb (June 2011)



Source: UBS, Bloomberg, IMF

According to Bloomberg, total Greek debt outstanding at the end of June 2011 was €343 billion. An estimated 37% of debt is held by the ECB, IMF, and the EU via securities markets operations and bilateral loans. Another 29% is held by Greek investors and 33% is held by non-Greek investors, including European banks. French banks hold €11 billion, UK banks hold €4 billion, German banks hold €8 billion and other EU banks hold €11 billion. While these might appear to be large nominal amounts, relative to the capital base of the banks, particularly the larger European banks to which U.S. money market funds are exposed, it is not. For the core European banks, Greek sovereign debt is a small fraction of their capital.

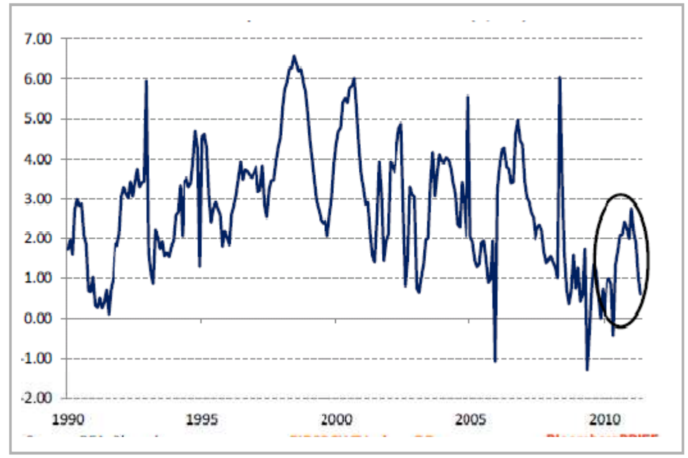
Since the financial crisis ended in 2009, European banks have significantly improved their capital structure, raised equity, and have enhanced their liquidity profiles. Additionally, liquidity is also available through central banks around the world. Memories of the fallout from the Lehman Brothers' collapse are still fresh on investors minds, but there are substantial differences with the Greek situation today. Lehman happened overnight. The markets have had more than a year to prepare for a potential Greek default, and a significant amount of back up facilities are now available for banks to avert a similar global liquidity crisis from occurring again.

Economy & Markets

U.S. Economic Growth and Inflation:

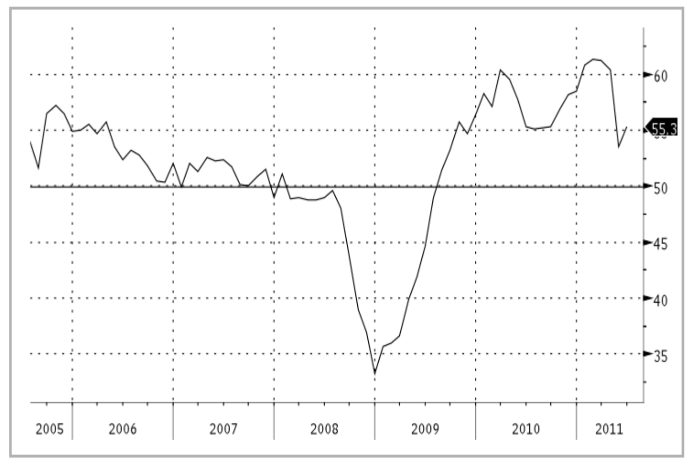
- Clearly the U.S. economy has slowed in recent months, in part due to temporary factors. Sharply higher gasoline prices crimped consumer spending and supply disruptions following the Japanese disaster dealt a blow to manufacturing. Both negative influences will likely abate in coming months. As such, median estimates for second half growth are near 3.0%, and the Index of Leading Economic Indicators recently rebounded sharply. Yet, in recent testimony Fed Chairman Bernanke admitted that some of the headwinds we face "may be stronger and more persistent than we thought."
- The impact of gasoline prices and sluggish wage gains is illustrated in recent declines in the YoY change in personal income, adjusted for inflation (Chart 1). This has, in turn, slowed the pace of real consumer spending, particularly on big ticket durable goods. Vehicle sales have fallen from 13.1 million in April to 11.8 in May.
- Several of the regional surveys of manufacturing activity have slowed. The Philadelphia Manufacturing Index, for example, has fallen a record 51 points in just three months. But, the June ISM Manufacturing Index exceeded expectations at 55.3, up from 53.5 in May (Chart 2).
- While the Fed's easy money policies have caused temporary spikes across various commodities and assets, falling home prices and stagnant wages continue to suggest these pressures are largely transitory.

Chart 1: Real Disposable Personal Income (YoY%)



Source: Bloomberg

Chart 2: ISM Manufacturing Index

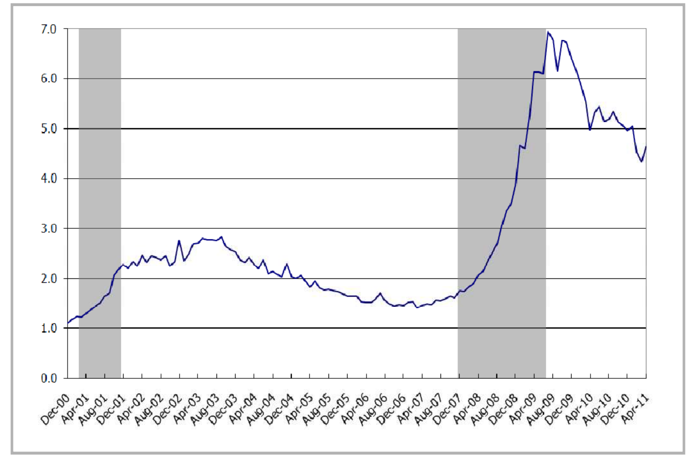


Source: Bloomberg

Employment:

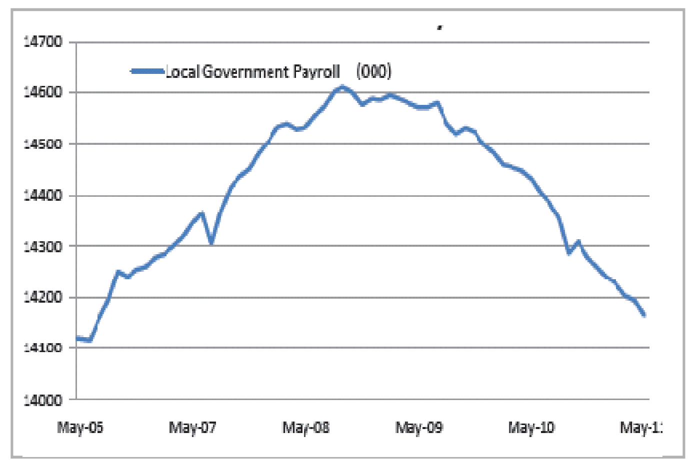
- May's payroll report came in below expectations as just 54,000 new jobs were added. The private sector added 83,000 while government employment fell by 29,000. The unemployment rate was unchanged at 9.1%. Average hourly earnings rose just 1.8% YoY, well behind the 3.2% inflation rate over the same twelve month period.
- The ratio between the unemployment level and job openings changes over time. In December 2007 there were 6.1 unemployed persons for every job opening. The ratio has come down and was at 4.6 persons/opening in April, still well above pre-recession levels (Chart 3). A lack of mobility due to the weak housing market and the lack of appropriate skills for available openings may be slowing the pace of hiring. Unfortunately, the average duration of unemployment is now 39.7 weeks, the longest on record.
- State and local hiring has historically been an engine of growth during economic recoveries, but not so now. At this point after the 1990 – 91 recession 430,000 new government jobs had been added, and 249,000 were added after the 2001 recession. Through May 467,000 government jobs, including education, have been lost since the 2008 peak. Local government payrolls, which accounts for 11% of total employment (14.2 million workers), have fallen back to 2006 levels (Chart 4).

Chart 3: # of Unemployed per Job Openings (SA)



Source: Bureau of Labor Statistics

Chart 4: Local Government Payroll



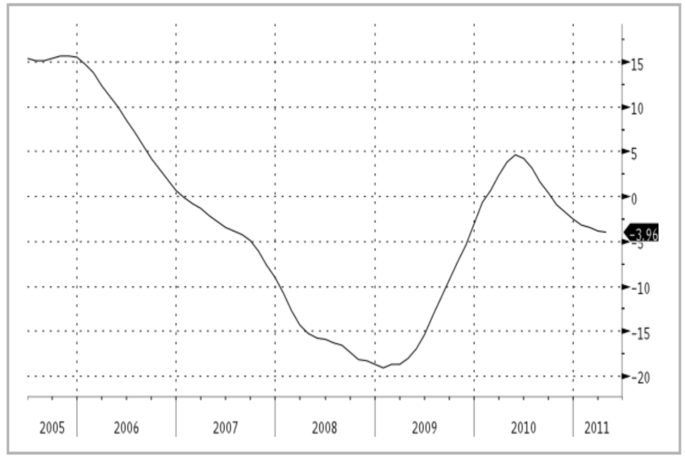
Source: Bureau of Labor Statistics

Monthly Economic Update & Market Review

Housing:

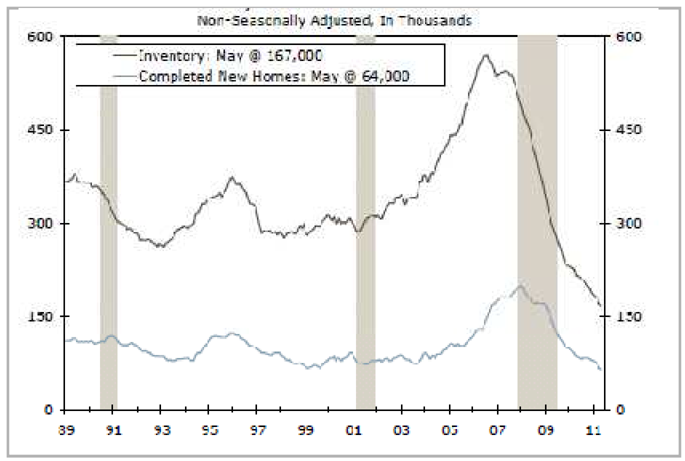
- The housing market remains broadly weak with occasional signs for optimism, particularly in locations with stronger regional economies. Sales of existing homes fell 3.8% in May and new home sales fell 2.1%, both of which were in line with market expectations.
- The April S&P/Case-Shiller 20-City Index rose 0.7% MoM, but fell 0.1% when seasonally adjusted. While prices have fallen another 4.0% in the past year the rate of decline appears to be moderating (Chart 5). Unfortunately, those looking for the elusive "bottom" in the market may have to wait a bit longer. Excessive inventory levels and the negative impact from distressed sales will likely continue to weigh on prices.
- There remains an estimated 2.2 million homes currently in foreclosure and another 1.9 million with mortgages that are more than 90 days past due on their payment. In May, roughly 79,000 foreclosed homes were sold by lenders. At that pace, it would still take a over two years just to clear the homes already in foreclosure.
- New construction activity remains very weak despite low levels of new home inventory (Chart 6). The months' supply of new homes is now down to just six months, near the long-term average, even at the recent slow pace of sales. Yet, until existing home inventory declines from the currently elevated 9.3 months supply we're unlikely to see new construction accelerate.

Chart 5: S&P/Case-Shiller 20-City Index (YoY %)



Source: Bloomberg

Chart 6: Inventory of New Homes for Sale

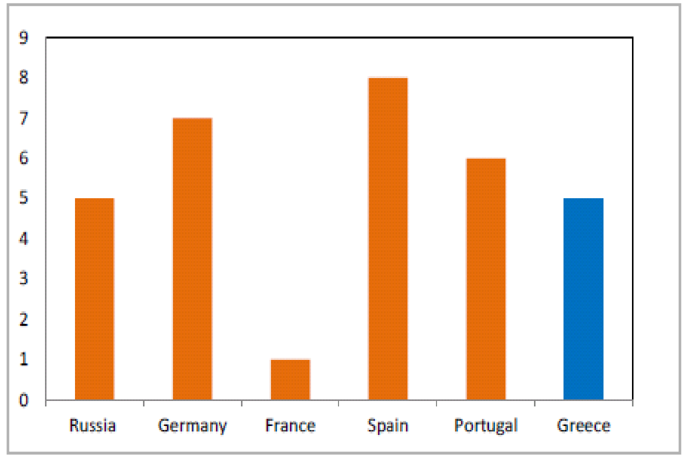


Source: Wells Fargo Securities

International Developments:

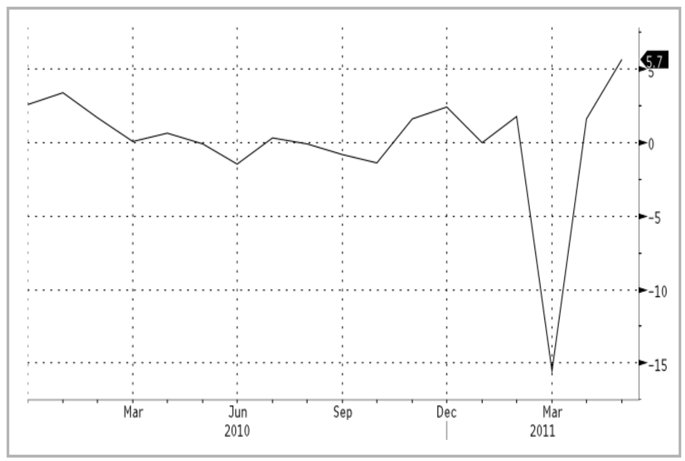
- In spite of rioting and public service strikes in Greece, the Greek parliament ultimately passed a series of austerity measures that allows them to receive not just the next quarterly installment of a bailout package agreed to last year by the EU and IMF, but sets the stage for additional funding over the next several years. Yet to be determined is the fate of €64B ($91B) of Greek debt that will mature over the next three years. Germany and France want to avoid an outright default, since their banks are exposed to Greek debt, an estimated €11B and €8B, respectively. They're working feverishly to avoid not just a default of Greek debt, but the spillover effect that such an event might cause throughout Europe and the rest of the world. European sovereign defaults, however, aren't as rare as one might think (Chart 7).
- One very encouraging sign on the global scene is the "V" shaped recovery that appears to be underway in Japan. Industrial production in May rose 5.7% MoM (Chart 8). While total output is still more than 9% below February levels, they are working rapidly to rebuild and bring production back online.
- Activity in China appears to be slowing as their Manufacturing PMI has slipped to 52.0 in May from 55.2 last November. The good news is that as growth moderates so too should inflation pressures. If inflation peaks over the next few months, as many expect, then so too may their tightening cycle slow as well.

Chart 7: Number of Sovereign Defaults since 1800



Source: Bloomberg

Chart 8: Japan Industrial Production (MoM %)



Source: Wall Street Journal

Monthly Economic Update & Market Review

Large Cap Equities:

- The S&P retreated 1.7% in June as every sector ended lower. The similarities between 2010 and '11 monthly returns are similar, both in timing and magnitude. Both years started with stocks advancing through April only to fall in May and June as economic growth slowed and Euro contagion fears surfaced. In the second half, however, economic growth improved and equities rallied.
- Financials was the worst performing sector as headline risk led many banks lower (Chart 9). Among the headlines were: Goldman Sachs subpoenaed for their role in the financial crisis, JP Morgan resolving mortgage-related claims, and risk of Systematically Important Financial Institutions (SIFI) being penalized over erroneous capital levels. The headline risk at month end, as SIFI capital levels and debit interchange rates were better-than-expected, faded a bit. Also, Bank of America agreed to pay $8.5B to resolve claims over soured mortgages.
- Equities recorded six consecutive weekly declines for the period ending 6/10/11. Our research shows that historically equities have generally posted strong average returns after this period of underperformance. We count eight periods in the past 35 years where this has occurred and note the period of outperformance is strongest when the market also has a strong technical backdrop, measured by a rising 200-day moving average, as it does now (Chart 10).

Chart 9: S&P 500 Sector Performance

Sector	Weight	1 Mo	YTD	1 Year
Consumer Discretionary	10.6%	-0.2%	8.3%	40.4%
Consumer Staples	10.6%	-2.4%	7.9%	26.7%
Energy	12.7%	-1.9%	11.4%	52.7%
Financials	15.1%	-2.8%	-3.1%	12.9%
Health Care	11.7%	-1.1%	13.9%	28.7%
Industrials	11.2%	-0.6%	8.1%	38.2%
Info Technology	17.8%	-2.6%	2.0%	25.7%
Materials	3.7%	-0.2%	3.6%	45.2%
Telecom Services	3.1%	-1.3%	7.1%	39.0%
Utilities	3.4%	-0.1%	9.1%	24.2%
Total		-1.7%	6.0%	30.7%

Source: Bloomberg, Wilshire Atlas

Chart 10: Avg. S&P Returns Following 6 Down Weeks

	6 Down Weeks	6 Down Weeks AND Positive Technical Trends
+ 1 Mo	3.92%	4.43%
+ 3 Mo	1.28%	8.18%
+ 12 Mo	10.43%	27.84%

Source: Bloomberg

Mid- and Small-Cap Equities:

- Small-caps trailed both large and mid-caps during the month on fears of a significant slowdown in economic growth. Equity markets hit their lows around mid-month with small-caps touching official correction status with a decline of just over 10% from their April 30th closing high. As fears subsided, the Russell 2000 index regained about one-half those losses to finish just slightly ahead of large-caps year-to-date.
- Sector performance followed the daily headlines with the more economically sensitive sectors of Energy and Materials suffering at the expense of more defensive sectors such as Consumer Staples and Utilities (Chart 11).
- The Russell Mid-Cap Index also trailed large-caps during the month with the Technology and Telecom sectors leading the downside (Chart 12). Mid-cap stocks also suffered a 7% decline off their 2011 April 30th closing high, similar to the S&P 500 index.
- The Russell Mid-Cap Index again leads the return parade year-to-date with an 8.1% gain. The Russell Mid-Growth Index also has a significant return advantage of 9.6% YTD versus 6.7% for Value, with the bulk of the outperformance coming from the Consumer sectors.

Chart 11: Russell 2000 Sector Performance

Sector	Weight	1 Mo	YTD	1 Year
Consumer Discretionary	13.3%	-0.9%	5.0%	36.1%
Consumer Staples	3.3%	-1.4%	11.3%	32.1%
Energy	7.1%	-3.0%	11.0%	66.2%
Financials	20.6%	-2.4%	0.8%	20.8%
Health Care	12.5%	-3.5%	13.1%	36.6%
Industrials	15.4%	-1.2%	3.4%	36.9%
Info Technology	18.5%	-2.9%	7.9%	49.1%
Materials	4.9%	-3.8%	5.5%	53.7%
Telecom Services	1.1%	-1.1%	18.3%	49.4%
Utilities	3.2%	-0.5%	9.0%	28.8%
Total	100.0%	-2.3%	6.2%	37.4%

Source: Bloomberg, Wilshire Atlas

Chart 12: Russell Mid Cap Sector Performance

Sector	Weight	1 Mo	YTD	1 Year
Consumer Discretionary	15.3%	-0.8%	12.3%	52.0%
Consumer Staples	5.9%	-1.1%	16.4%	39.1%
Energy	8.5%	-3.0%	7.5%	50.9%
Financials	19.0%	-3.0%	3.4%	26.7%
Health Care	10.2%	-0.6%	16.4%	38.1%
Industrials	12.9%	-1.4%	5.4%	40.6%
Info Technology	13.8%	-4.5%	4.0%	35.6%
Materials	6.9%	-1.7%	8.5%	44.9%
Telecom Services	1.3%	-3.7%	-2.7%	26.9%
Utilities	6.3%	-0.7%	11.5%	29.7%
Total	100.0%	-2.1%	8.1%	38.5%

Source: Bloomberg, Wilshire Atlas

Monthly Economic Update & Market Review

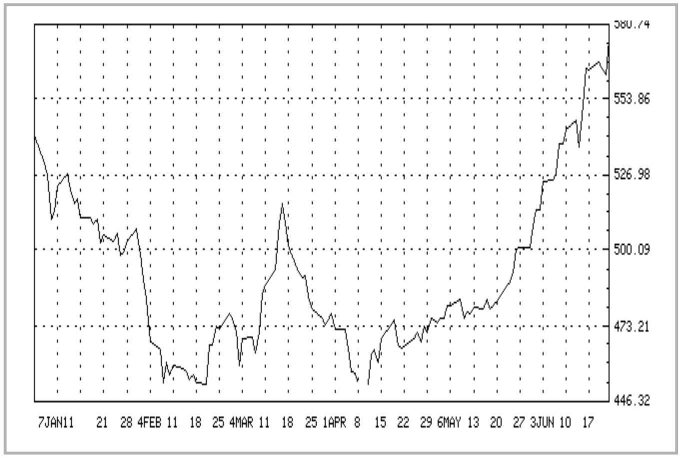
Fixed Income Market – Taxable:

- Treasuries began the month with a continuation of the strong rally that started in April as softer economic data trends combined with the acute fiscal problems in Europe. However, Treasuries sold off rapidly during the final week of June (Chart 13) as Greece worked to pass a new austerity plan that provides them with a large tranche of incremental funding from the EU and IMF. The Treasury curve steepened over the month with the 2s-to-10s curve steeper by 11bps, and 10s-to-30s by 4bps.
- Investment grade (IG) corporate supply in June was $37 billion, down substantially from the $106 billion in May. Credit spreads for IG and high yield (HY) widened to Treasuries by 7bp and 34bp, respectively. The total return for IG corporates was -0.88% in June (3.16% YTD); HY was -0.97% (4.97% YTD). Both indices underperformed the Treasury market for a second month with excess returns of -0.35% for IG and -0.78% for HY. HY credit spreads, at +575 bps, are now wider than the were at year end by 34 bps (Chart 14).
- Agency MBS were relatively volatile in June, but ultimately outperformed Treasuries by 23bps in the month and 76bp YTD. Mortgage application activity remains low despite increasingly attractive 30-year mortgage rates. A modest uptick in MBS prepayment is expected in the coming months, assuming current rate levels.

Chart 13: 10yr Treasury Yield (%)

Source: Bloomberg

Chart 14: ML High Yield Master Index II (spread, bps)

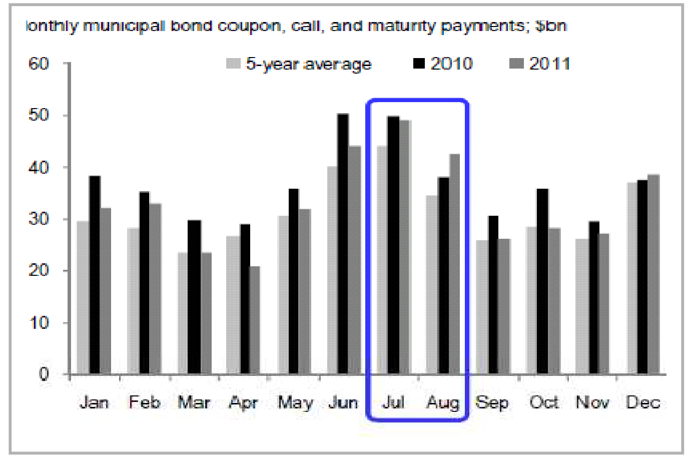


Source: Bloomberg

Fixed Income Market – Tax-exempt:

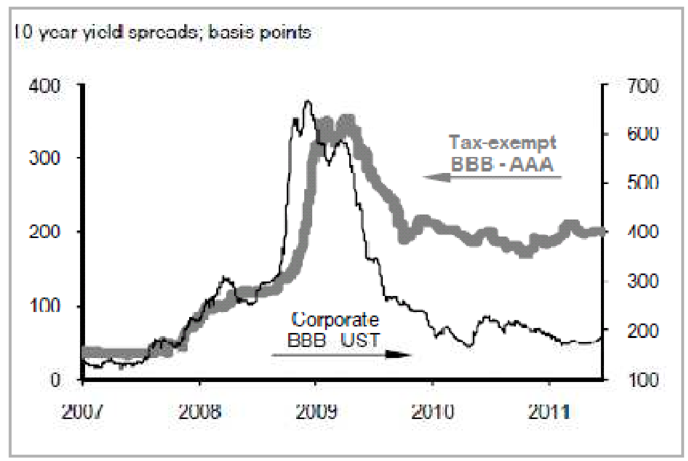
- The municipal market maintained a solid tone throughout the month as heavy seasonal reinvestment demand continued to exceed light new supply This favorable technical backdrop is likely to remain through the balance of the summer (Chart 15). While demand was still strong amid short and intermediate maturities, low nominal yields encouraged investors to move out along the yield curve and to trade down in credit quality.
- The widespread fears of municipal defaults were not realized in the first half of 2011, which led to favorable performance for the tax-exempt asset class. The best opportunities currently are in mid-tier quality issues. "A" rated and "BBB" rated issues currently yield approximately 100 bps and 200 bps, respectively, over "AAA" rated issues; both spread levels are nearly twice the long-term average. And, while credit spreads in the corporate market are largely back to pre-crisis levels, that is not the case in the municipal market where significant tightening potential still exists (Chart 16).
- For most states the new fiscal year begins July 1 and there has been significant structural improvement in many locations. Several were able to wring concessions from their public sector employees on wages and retirement benefits that seemed improbable just a few months ago. While fiscal challenges remain, these changes, combined with rising tax revenues, are a good sign for bondholders going forward.

Chart 15: Heavy Seasonal Reinvestment Demand



Source: JP Morgan Research

Chart 16: Muni vs. Corporate Credit Spreads



Source: JP Morgan Research

Alternative Markets:

- Oil prices and pump prices had already begun to retreat when it was announced that the International Energy Agency (IEA) would release 60 million barrels of supplies from the strategic reserve (Chart 17). When the reserve has been tapped on two prior occasions since 1971, the price impact was modest and only temporary. Indeed with less than 4% of reserves being released, there are ample additional reserves, should shortages extend beyond Libya.
- While regulators continue to focus on perceived excess speculation in the commodity markets, prices fell again in June –resulting in negative returns YTD. Gold fell below $1500/oz. despite the ongoing Greek debt crisis and challenges for the Euro currency.
- Publicly traded REITs, while down for the month, have shown strength over the past year, particularly multi-family property units. An example is Equity Residential (EQR), a large apartment REIT (Chart 18). Weakness in the housing ownership has translated into improving demand for rental units.
- Hedge funds have been hurt recently by the dearth of successful asymmetric risk trades. While Greek bonds might yield 16%, the loss potential far exceeds the short term interest spread. Similarly, US Treasury short positions have hurt results, even though monetary policy appears constrained by the fiscal excesses that have yet to be resolved.

Chart 17: Brent Crude Oil Spot ($/bbl)

Source: Bloomberg

Chart 18: Equity Residential (EQR) ($)

Source: Bloomberg

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