



## Citizens Bank & Trust Market Review

December 2011

[In This Issue]

[Economy [page 2](#)]

Improving employment trend gaining traction.

[Fixed Income [page 5](#)]

Riskier asset classes underperform.

[Equities [page 8](#)]

The stock market roller coaster returns in November.

[Alternative Investments [page 10](#)]

November posts losses for Alternatives.

[Disclosures [page 12](#)]

## Improving employment trend gaining traction.

### Recent Economic Indicators

Thomson Reuters/Univ. of Michigan Consumer Sentiment	64.1
Consumer Confidence	56
Existing Home Sales, Monthly Change	1.4%
New Home Sales, SAAR*	307,000
Personal Income, Monthly Change	0.4%
Personal Consumption Expenditures, Monthly Change	-0.1%
Non-farm Payroll Increase/Decrease	120,000
Unemployment Rate	8.6%
ISM Non-Manufacturing Index	52.0%
ISM Manufacturing Index (PMI)	52.7%
New Durable Good Orders, Monthly Change	-0.7%
Industrial Production, Monthly Change	0.7%
Capacity Utilization	77.8%
Retail Sales, Monthly Change	0.5%
CPI, Monthly Change	-0.1%
CPI Core, Monthly Change	0.1%
PPI, Monthly Change	-0.3%
PPI Core, Monthly Change	0.0%
U.S. Trade Deficit	\$43.1 billion
3Q11 Non-farm Productivity, Quarterly Change, SAAR*	2.3%
3Q11 Real GDP, Quarterly Change, SAAR*	2.0%

\*Seasonally Adjusted Annual Rate  
Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, the Federal Reserve, Thomson/Reuters/University of Michigan, Institute for Supply Management, National Association of Realtors, The Conference Board.  
Values reflect most recent data available at time of publication.

### Overview

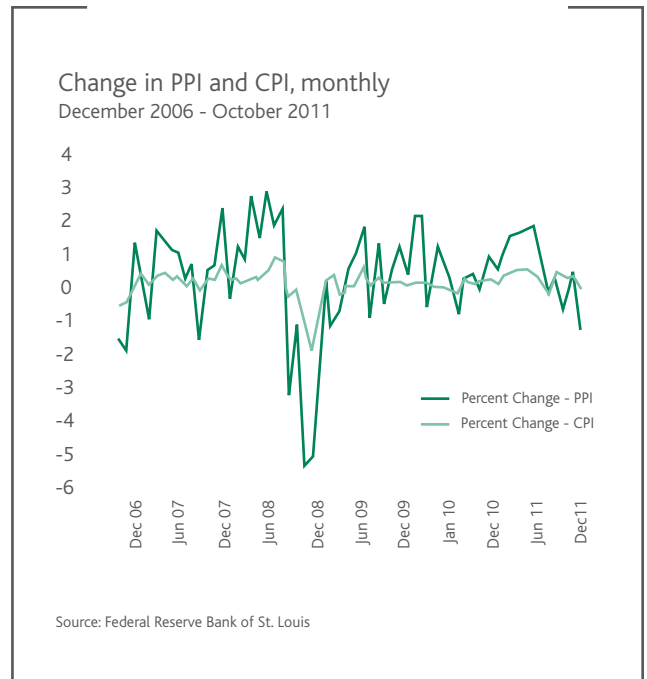
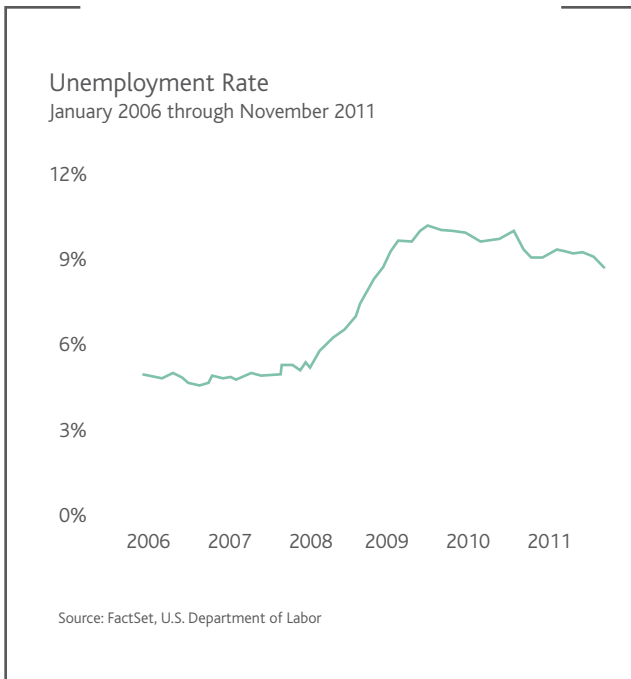
The so-called "Super Committee" proved to be anything but, failing to agree on a \$1.2 trillion debt reduction package in November. The committee's squabbling over taxes and entitlements is just one more example of how far the ideological divide has grown between Republicans and Democrats and why congressional approval ratings are polling as low as 9% right now. The failure to reach a deal will result in \$1.2 trillion in automatic cuts in defense and non-defense spending, but those cuts will not take effect until 2013 and are not nearly enough to slow the growth of our nation's debt relative to GDP.

Economic growth got a slight downgrade in the Commerce Department's second estimate for the third quarter. GDP growth was revised down to 2.0% from the initial 2.5% estimate released last month. The negative revision was largely due to a downward adjustment to inventory investment which does little to damage the economy's forward momentum.

The U.S. trade gap unexpectedly narrowed in October with imports falling more than exports, according to the Commerce Department. The trade deficit shrank \$0.7 billion to \$43.5 billion from an upwardly revised September number. One of the key drivers to the improvement came from a \$2.2 billion decrease in the petroleum gap. A reversal of the increase in nonmonetary gold exports from the previous month led to a widening of the nonpetroleum goods trade gap. Excluding oil and gold, the underlying trend of export and import growth continues.

### Employment

The steady, downward trend in initial jobless claims continued throughout the month, according to the Labor Department. The number of Americans filing for initial jobless claims fell a sizeable 23,000 to 381,000 for the week ended December 3. On an unadjusted basis it was the largest single-week drop for the year,



but the holiday season often clouds the weekly claims data. The four-week moving average fell 3,000 to 393,250 and is a better indicator that the improving trend in the labor market is gaining more traction. Continuing claims fell 174,000 to 3.583 million for the November 26 week. The four-week average fell 21,000 to 3.667 million and is now at its lowest level of the recovery.

The November employment situation report from the Labor Department showed 120,000 jobs were added during the month, topping an upwardly revised 100,000 gain the previous month. The private sector once again added more to the payrolls than the overall figure, contributing 140,000 as government jobs declined by 20,000. The unemployment rate fell to 8.6% from 9.0% in October, but not in the most positive fashion. The labor pool, or denominator of the equation, shrank by 315,000 as more Americans gave up on the job search. Overall, the report is positive though and shows the employment picture continues to improve, which should support economic growth in the quarter.

According to Challenger, Gray & Christmas, employers announced plans to shed 42,574 workers from their payrolls in November – roughly the same number as the previous month. Planned government cuts at 18,500 continue to account for a large portion of layoffs. CEO John A. Challenger said, “Over the past six months, we definitely have seen a shift away from the heavy government job cuts at the state and local level toward increased job cuts at the federal level.”

### Consumer Confidence and Spending

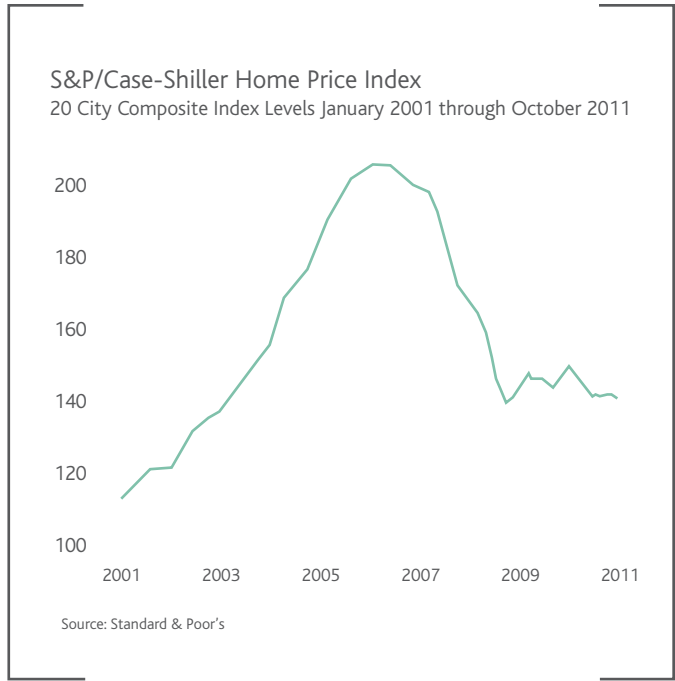
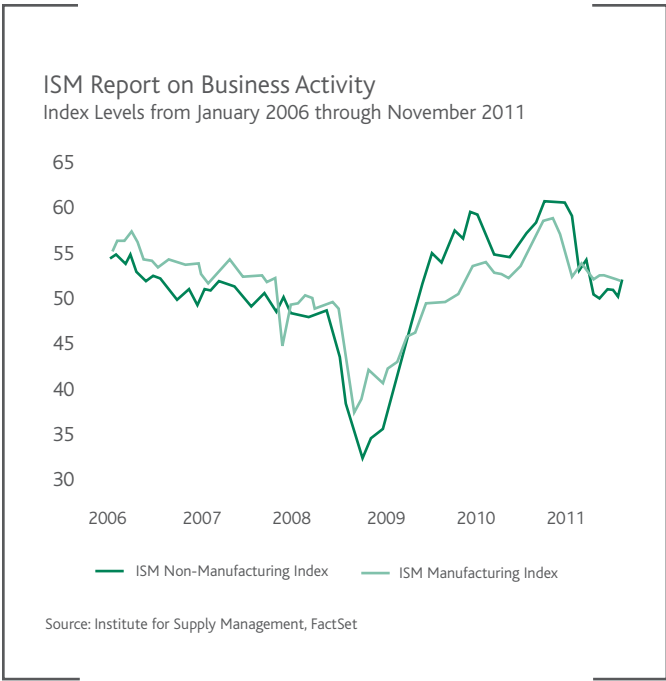
The consumers’ improved outlook on the jobs market and their income prospects helped confidence surge to levels not seen since this summer. The Conference Board’s confidence index rose a sharp 15 points to 56.0 in November, which bodes well for the holiday shopping season.

Retail sales continued to gain in October, up 0.5% for the month according to the Commerce Department. While it was not as strong of a showing as the 1.1% jump in September, it was still above consensus estimates and shows the consumer is willing to spend. Sales at electronics & appliance stores showed the greatest strength surging 3.7%, while clothing & accessory stores were the weakest with a 0.7% decline in sales. Retail sales gains on a year-over-year basis softened to 7.2% from 7.9% in September. Personal income and spending also continued to post gains in October. Personal income rose 0.4% and the wages & salaries component came in at an even stronger 0.5%, indicating that despite high unemployment, the situation for those with jobs is improving. Consumer spending on durables jumped 0.8%, likely aided by a drop in gasoline prices.

### Inflation

We are finally seeing some relief on the inflation front, which had been running high over the past few months. The consumer price index edged down 0.1% in October after rising 0.3% the previous month, according to the Labor Department. The decline was largely driven by lower energy prices which fell 2.0%. Excluding food and energy, the core CPI rose a mild 0.1%. Year-over-year headline inflation softened to 3.6% from 3.9% in September, while the core rate climbed to 2.1% from 2.0%. Meanwhile, prices at the producer level also fell on weaker energy prices, down 0.3% following a 0.8% jump in September. The inflation relief will likely be short-lived, however, as energy prices rebounded strongly in November.

Inflation pressure is easing in both imports and exports, according to a report from the Commerce Department. Import prices fell 0.6% in October as the cost of petroleum dropped 1.0%. Meanwhile, export prices dropped a sharp 2.1% as agricultural prices fell 6.5%. Year-over-year, import prices are still up 11.0% and exports are up 6.3%, but the report shows the threat of higher inflation may be waning.



#### Business Activity

Manufacturing in the U.S. expanded for the 28th consecutive month, according to the Institute for Supply Management. The PMI registered 52.7 in November, up 1.9 points from October's reading of 50.8, the highest reading since June. The best news is since new orders were up a very strong 4.3 points to 56.7, the manufacturing sector should show continued strength in coming months. In an interesting twist, China's official PMI slid to 49.0 during the month from 50.4 in October, meaning manufacturing is declining in China while it is growing here in the U.S.

Durable goods orders softened as a result of a drop in the volatile civilian aircraft orders component. The headline number fell 0.7%, but excluding transportation durable orders were up 0.7%. Boeing recently announced a record order for new jets valued at nearly \$22 billion which will add strength to next month's numbers.

#### Housing

Sales of existing homes rose 1.4% in October to a 4.97 million annual rate, according to the National Association of Realtors. Buyers were likely drawn in by lower prices which fell 2.0% during the month to a median of \$162,500. Meanwhile, the Case Shiller 20-city index showed a 0.6% decline for the month of October after four months of being relatively flat. The expiration of higher conforming loan limits on October 1 was likely a contributing factor to the drop in prices. The market for existing homes is showing signs of life with pending sales up 10.4%, according to the National Association of Realtors.

Sales of new homes improved yet again while prices continue to contract, according to a report from the Commerce Department. New home sales were up 1.3% in October bringing the current supply to 6.3 months at the current rate. Median prices softened for the fourth straight month, however, falling 0.5% to \$212,300. Tight credit conditions and a large number of foreclosures will continue to limit the housing recovery for the foreseeable future.

#### World Economy

Political theater in the eurozone continued this month, with the Prime Ministers of both Greece and Italy agreeing to step down. George Papandreou submitted his resignation on November 10 after forming a coalition government with the support of the majority of the opposing party. Former European Central Bank vice president Lucas Papademos has been named the interim prime minister of Greece. Italian Prime Minister Silvio Berlusconi also announced he would step down once austerity measures demanded by the EU were adopted by both houses of parliament. He resigned on November 17 and was succeeded by technocrat Mario Monti. Italy, with €1.9 trillion in debt – roughly 120% of their GDP – is a much larger problem than Greece.

The problems in Europe have been getting worse, as yields on bonds in troubled eurozone countries Italy and Spain have been climbing. The situation was exacerbated when a report issued by Eurostat this week showed the region was flirting with recession. GDP growth for the 17 nations was an anemic 0.2% in the third quarter. A shrinking economy in Europe would also put downward pressure on growth here in the U.S.

## Riskier asset classes underperform.

Fixed Income Current Yields	11/30/11
3 Month U.S. T-bill	0.01%
2 Year U.S. Treasury	0.25%
5 Year U.S. Treasury	0.96%
10 Year U.S. Treasury	2.08%
30 Year U.S. Treasury	3.06%

Total Returns <sup>1</sup>	1 Month	YTD
Barclays U.S. Aggregate	-0.09%	6.67%
Barclays U.S. Govt./Credit	-0.23%	7.35%
Barclays U.S. Municipal Bond	0.59%	8.63%
Barclays U.S. Corp. High Yield	-2.16%	2.26%
Barclays U.S. Long Credit A	-2.62%	12.90%
Barclays U.S. Treasury 20+ Year	3.11%	29.44%
Barclays Global Aggregate	-1.75%	4.94%
Barclays Emerging Markets	-1.26%	5.46%

<sup>1</sup> 1 Month and 12 Month ending 11/30/11.  
Source: U.S. Department of the Treasury, Barclays Capital  
Values reflect most recent data available at time of publication.

### Overview

The events in Europe dominated U.S. bond market activity once again and caused especially large swings in returns during November. In a dramatic reversal from last month, safe-haven securities outperformed riskier asset classes by a wide margin. The Barclays U.S. Treasury: 20+ Year index returned a 3.11% for the month, bringing year-to-date gains to 29.44%. At the same time, high yield lost 2.16% and corporate investment grade lost 1.96%.

Events relating to Europe's debt crisis have now become the primary driver of demand in the domestic fixed income market. Early in the month, amplified fears concerning contagion effects on the eurozone's banking system sent investors into the safe-haven U.S. Treasury market. Although the sovereign debt crisis has plagued the markets for months, growing signs the region's banks find it more difficult and expensive to obtain funding have spurred the recent spike in anxieties. By mid-month, Treasuries began to fall after a decline in Italian and Spanish yields following a European Central Bank (ECB) intervention in the markets, which attempted to stem spiraling debt costs in these nations. According to a Dow Jones report, the ECB may also start lending to the International Monetary Fund for additional bailouts in the region. Toward the end of the month, in a global effort to ease investor anxieties, six major central banks led by the Federal Reserve made it cheaper for banks to borrow U.S. dollars for emergencies. At the same time, European leaders said they failed to increase the region's bailout fund as much as planned.

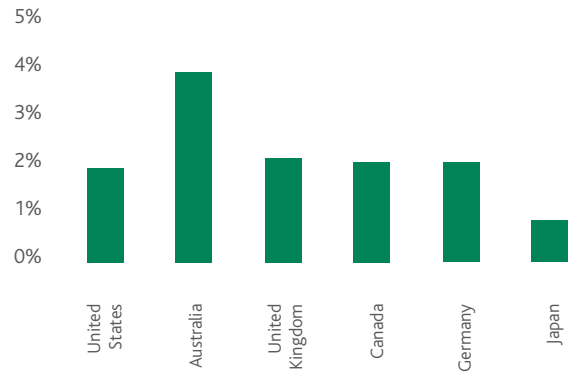
Although we acknowledge U.S. government debt may benefit going forward given the volatility in the global markets, we still feel a 2% yield on 10-year Treasuries is too low when inflation is running close to 3%. Investors should target intermediate-term investment grade corporates, high yield and emerging market debt as a means to bolster real returns.

Investment Grade Corporate Spread  
In Basis Points, through November 2011



Source: Merrill Lynch

10-Year Government Bond Rates  
Latest Yield as of 11/30/2011



Source: Bloomberg

### Corporate

The investment grade corporate sector finished sharply lower dropping 1.96% for the month, bringing year-to-date gains to 5.88%. Widening spreads drove performance as anxieties increased about Europe and the still weak domestic economy. Separately, liquidity conditions in the credit sector have deteriorated, partly due to increased macro uncertainty, recent regulatory developments and a changing buyer base. In particular, the dealer community, the largest providers of daily liquidity, is shrinking its inventory of corporate debt in response to the proposed Dodd Frank Act, which will impose restrictions on proprietary trading in the U.S. Additionally, stricter capital requirements under Basel III make it more expensive for dealers to hold inventory. As such, inventory levels are at their lowest point in eight years. Strategists feel that as dealers shrink their corporate bond holdings, large issuers that regularly tap the markets will remain liquid and represent a larger portion of inventory at the expense of medium- and low-liquidity credits. Meanwhile, Standard and Poor's cut its ratings on 15 banks including Bank of America, Goldman Sachs, JP Morgan and Wells Fargo. S&P changed its ratings methodology after faulty grades on Lehman Brothers and Bear Stearns contributed to the credit market collapse in 2008. However, this change in methodology resulted in relatively minor revisions.

High yield bonds also dropped considerably losing 2.16% for the month, bringing year-to-date returns to 2.26% as market participants returned to safer asset classes. Default rates remain low, running at 1.94% this year versus a historical average of 4.59%, yet yield spreads have widened to levels generally associated with recessionary periods. Given these low default rates, wide spreads and stronger corporate balance sheets, we feel the high yield sector remains particularly attractive.

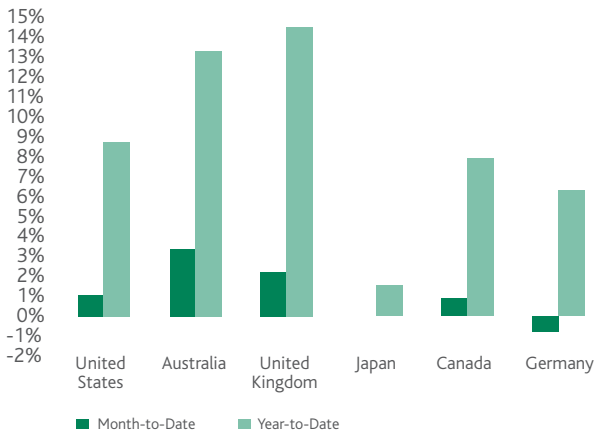
### Municipals

Following the lead of safe-haven U.S. Treasuries, the Barclays Municipal Bond index gained 0.59%, posting gains in seven of the last eight months and bringing year-to-date returns to 8.63%. The benefits of owning municipal bonds versus many other fixed income securities remain robust, with high-quality, tax-exempt yields eclipsing similar maturity Treasuries along the entire yield curve. Compelling relative value ratios, a historically steep yield curve, wide credit spreads, manageable new issue supply and low default rates also provide momentum for demand going forward. However, challenges to the federal tax exemption, budget gaps, pension underfunding and a downgrade trend may affect retail mutual fund inflows in the near-term.

Meanwhile, investor perception and reality in the municipality sector remain misaligned. The combination of general expense reductions, particularly in the form of union concessions, and better than anticipated revenues helped balance budgets for many state and local governments. For all the anxiety investors experienced in 2010 and early 2011, municipal bond defaults are actually lower than last year by 69%, according to Standard & Poor's. At the same time however, the number of ratings downgrades has increased. Low default rates reflect the willingness and ability of states and local governments to pay debt service on municipal bonds, while the downgrades reflect continued challenges on both the fiscal and political front.

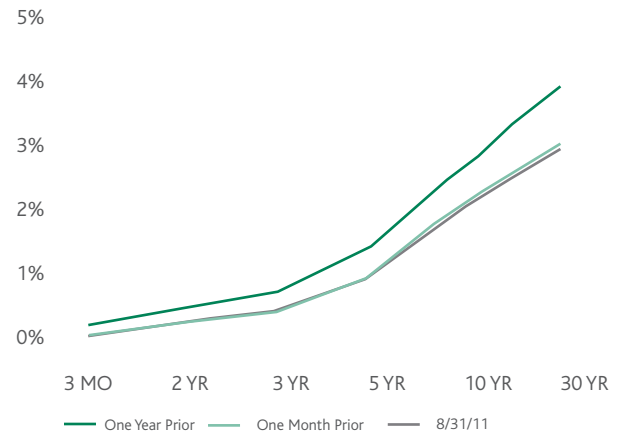
Looking ahead, the muni market appears well positioned given the number of positive developments, particularly the wage and benefit concessions from public employee unions which is gaining critical mass in 2011. Many strategists feel this could be a significant development as more municipalities harness the public's dissatisfaction with these benefits to gain significant, long-term concessions from unions once thought untouchable.

### Performance by Country Unhedged Total Returns, November 2011



Source: Barclays Capital

### U.S. Treasury Yield Curve As of 11/30/11



Source: U.S. Department of Treasury

### International

The Barclay's Global Treasury ex-US index lost 2.18% on an unhedged basis, but lost only 0.52% on a local currency basis, consistent with a considerably stronger U.S. dollar against the euro and other currencies. Unlike last month, the flight-to-quality trade gained with safe-haven countries including the U.K., Canada and Australia posting strong gains in local currencies. Treasury securities from most eurozone countries fell considerably with Portugal (-7.68%), Italy (-5.27%), Ireland (-4.41%) and Spain (-3.12%) leading the pack. As a whole, the Euro Broad Market Index lost 2.29%, the greatest monthly decline since the inception of the currency.

Meanwhile, Fitch cut Spain's rating to AA- from AA+ noting the deepest austerity measures in three decades have yet to convince investors the country can curtail the surge in its debt burden. Although the ratings cut was not unexpected as Moody's and S&P have already downgraded Italy and placed Spain on "negative watch", the move reignited worries about the eurozone's debt crisis. Though the impact was quite small, Fitch also downgraded Hungary to below investment-grade. Despite these sovereign debt concerns, the international markets rallied toward the end of month as six major central banks agreed to keep their dollar funding facility open for an extra six months and lower the costs for using these short-term loans. Market strategists feel this development suggests global policy makers intend to provide as much stimulus as needed to keep the international banking systems solvent. This along with a European proposal to channel an additional 200 billion Euros through the International Monetary Fund to help fight the debt crisis sparked investor sentiment as market participants traded out of the safety of U.S. government bonds.

### Selling Premium Priced Bonds

In a study by Merrill Lynch, the authors posit whether or not investors ought to sell premium priced bonds and reinvest the proceeds into par priced securities with a similar yield to maturity. Proponents argue that selling a premium bond and purchasing a lower priced bond allows an investor to preserve the premium. The opposition suggests selling the premium bond will cost the investor less coupon income over the life of the bond.

In an efficient market, investors should be indifferent as the present value of all cash flows would be the same for both bonds. In other words, the higher coupon payments of the existing bond will offset the erosion of the premium. All else equal, swapping from a premium bond to a lower priced bond does not afford the investor any benefit over holding the original security to maturity. Even in an imperfect market, the swap would not be constructive for most investors, as premium bonds tend to yield more than current coupon securities. Since most retail demand focuses on bonds trading near par, premium bonds of the same maturity will often have higher yields. Many retail investors tend to avoid purchasing higher priced bonds since they feel premiums paid above par are "lost". Because of this limited demand for premium bonds, dealers often entice investors with higher yields.

However, when taxes are considered in the analysis, the authors find a slight benefit to making the swap to the par priced bond. The swap becomes favorable when the ordinary income tax rate is higher than the capital gains tax level. After paying the capital gains tax, swapping preserves most of the premium and generates less in taxable interest income. However, investors also need to consider transaction costs, state taxation and the likelihood of higher capital gains tax rates. These real world concerns generally erode most of the advantage from the swap, making the success of this strategy highly dependent on the current market environment.

## The stock market roller coaster returns in November.

Total Return	Month	YTD
Dow Jones Industrial Average	1.18%	6.70%
S&P 500	-0.22%	1.08%
NASDAQ Composite	-0.33%	-2.22%
S&P 100	0.06%	1.44%
S&P 400 MidCap	-0.30%	-1.36%
S&P 600 SmallCap	0.63%	-0.23%
Russell 2000	-0.36%	-4.80%
MSCI EAFE	-4.83%	-10.90%

<sup>1</sup>Month and YTD total return ending of 11/30/11

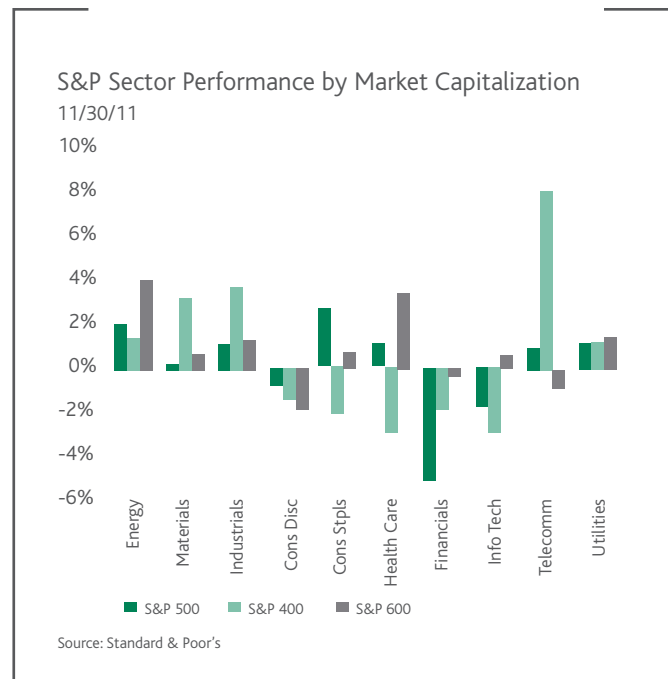
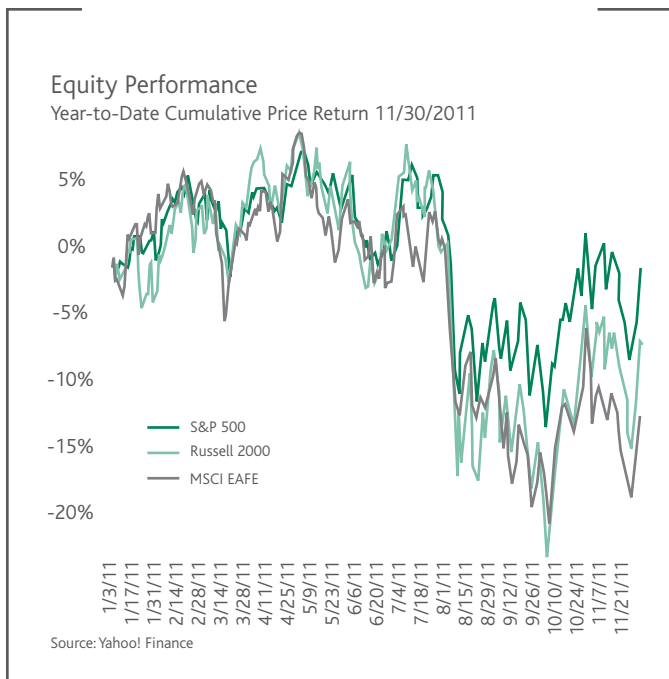
Values reflect most recent data available at the time of publication.  
Source: FactSet, Zephyr StyleAdvisor, Standard & Poor's, Russell Indices, The Wall Street Journal, Reuters, Morgan Stanley Capital International, MarketWatch, Financial Times

### Overview

After double-digit gains in October, volatility returned to the markets last month due to continued uncertainty about the European debt crisis and the lack of a budget deal resolution from the congressional "super committee." Through November 25, most major markets were down 8% or more. Strong Black Friday sales and a dollar funding agreement between major countries led to a huge rally in stocks the last three days of the month. Six central banks—the Federal Reserve, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank—were involved in the agreement to ease strains in financial markets and help foster economic activity. China's decision to lower the bank reserve requirement ratio for the first time in three years also contributed to the stock market rally.

The Dow Jones Industrial Average had a total return of 1.2% in November. The broader S&P 500 index was down only slightly, 0.2%, while the technology heavy NASDAQ Composite Index fell 2.2%. On the last trading day of November the Dow had its best day in two and a half years, up 490 basis points (bps). The Dow remained positive on a year-to-date basis (+6.7%), and continues to exceed the performance of the S&P 500 (+1.1%) and the NASDAQ (-0.3%) through the end of November.

Third quarter 2011 marked the eighth consecutive quarter of double-digit corporate earnings growth, according to Standard & Poor's, with seven of the ten S&P GICS sectors participating in the trend. Growth in Energy (+62%) and Materials (+31%) was mainly fueled by higher commodity prices. The uncertain economy alongside the situation in Europe led analysts to lower fourth quarter expectations slightly, with earnings growth expected in all sectors excluding materials, telecommunications services and utilities. Analysts now expect full year 2011 growth of 16.4% to \$99.25, higher than the forecast of \$95.18 at the beginning of the year.



### Domestic Equity

Consumer Staples (2.7%) and Energy (+2.0%) had the highest total returns in November. Estee Lauder (+21%) reported 18% sales growth and achieved its operating margin target two years ahead of schedule. Altria (+9%) was strong as investors continue to look for high yielding stocks. Returns were negative for Financials (-4.8%) and Information Technology (-1.7%). Bank of America declined 20.2% and Morgan Stanley fell 16.2% due to European debt concerns. Year-to-date, Utilities (+16.0%), Consumer Staples (+10.9%) and Healthcare (+9.5%) had the highest total returns, while Financials (-18.5%), Materials (-7.8%), and Industrials (-1.7%) have been the weakest sectors through month-end November.

According to Russell Indices, mid cap stocks fell slightly more than both large cap and small cap stocks. The Russell Midcap Index fell 0.5% while the Russell 2000 Index of small cap companies was down 0.4% and the Russell 1000 Index declined 0.3%. Growth performance relative to value was similar across the board. Year-to-date, Growth has outperformed value by about 400 bps in large and small cap and by nearly 250 bps in mid cap. However, as we described in our recent research wire, we do not believe the outperformance of growth stocks will continue going forward.

In corporate news, American Airlines filed for bankruptcy in order to achieve an industry competitive cost and debt structure, thereby assuring its long-term viability. The proposed merger between AT&T and T-Mobile ran into problems with both the FTC and the Justice Department. Standard & Poor's downgraded its ratings on 15 global banks, a widely expected move. The downgrades did not necessarily signal a change to any of the banks' individual credit metrics, but rather was related to criteria changes within S&P.

### International Equity

Volatility returned to international markets as well in November. The broad MSCI EAFE Index of developed markets declined 4.8% in U.S. dollar terms for the month. The MSCI Index for Greece was hit the hardest, falling 21.1%, while Spain (-8.1%) and Italy (-6.9%) were also very weak. Italian and Spanish bond yields both spiked mid-month, leading European bank stocks to decline over 20% before recovering in the month-end rally. Year-to-date through the end of November the MSCI EAFE Index was down 10.9%, with individual country index performance ranging from up 6.9% for Ireland to down 51% for Greece.

The MSCI Emerging Markets Index fell 6.7% for the month. China (-8.4%), India (-16.0%) and Taiwan (-9.5%) were among the weakest. China's manufacturing contracted for the first time since 2009, leading the central bank to announce a cut in the reserve requirement ratio and also signaling a shift toward growth and away from inflation. Resource stocks with growth expectations linked to export demand were negatively impacted by global economic uncertainty.

## November posts loses for Alternatives.

Price Change <sup>1</sup>	Month	YTD
Dow Jones UBS Commodity Index	-2.22%	-9.94%
Oil	7.82%	-1.96%
Copper	-2.13%	-21.34%
Gold	1.32%	22.47%
NAREIT- All REITS	-3.53%	2.61%
NAREIT-Industrial/Office	-5.07%	-5.33%
NAREIT- Residential	-5.62%	9.01%
S&P Global Property Ex-U.S.	10.37%	-8.26%
HFRI Emerging Markets Index	-3.13%	-11.31%
HFRI Fund Wtd Comp. Index	-0.92%	-4.37%
HFRI Equity Market Neutral	-0.21%	-2.45%
HFRI Event Driven	-0.65%	-2.45%
HFRI Market Defensive	-0.50%	-6.64%
HFRI Merger Arbitrage	0.21%	1.47%
HFRI Short Bias	1.11%	0.20%

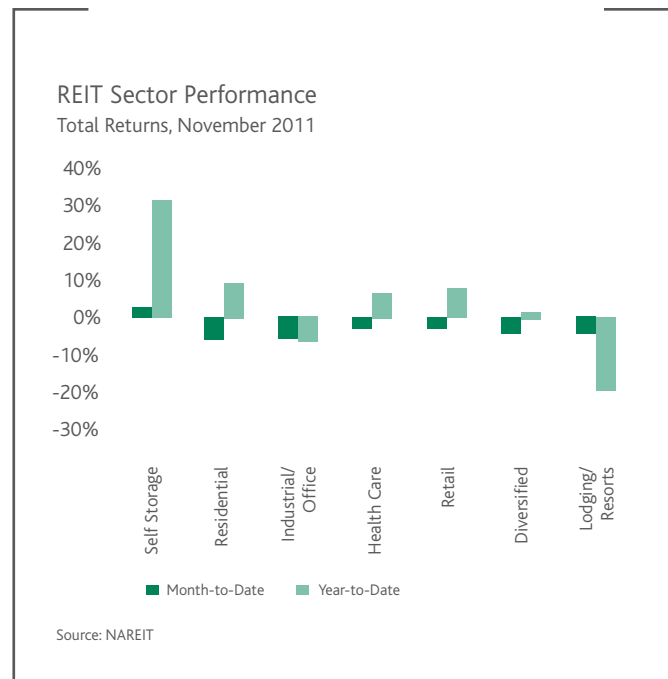
<sup>1</sup>Month and YTD total return ending 11/30/11  
 Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Standard and Poor's, wsj.com - Market Data Center, Private Equity Online, FINalternatives. Values reflect most recent data available at time of publication.

### Overview

After positive development in October, November lead alternatives lower once again. The Dow Jones UBS Commodity Index fell 2.22% this month, down 9.94% on the year, with the average hedge fund losing 0.92%. REITs were hit hardest in November dropping 3.53%, now down 2.61% year-to-date.

### Commodities

Commodities saw a drop in November as the Dow Jones UBS Commodity Index fell 2.22%. Metals and agricultural commodities were down while the big winner this month was Crude Oil, which gained amidst heightened drama in the Middle East paired with supply concerns around the world. The situation in Iran could cause the price per barrel to double next year, according to some analysts, but others speculate prices could drop significantly below \$100 per barrel with fears of reduced future demand if global markets enter another recession. Geopolitical factors will most likely be the primary force in price movements for the coming months as the European sovereign debt crisis alongside world relations with Pakistan and Iran continue to make headlines in a very sensitive, oil-heavy region. Europe and the U.S. are attempting to limit crude oil sales from Iran with financial sanctions as a form of embargo; without this supply source (Iran is OPEC's second-biggest producer), prices will most likely rise. According to Bloomberg, \$150 per barrel options became the most popular options bet on the exchange – outstanding calls jumped 29% in the last month on \$150 oil contracts. The EU imports 3% of its oil from Iran, meaning the sanctions being considered could have a significant effect on supply in that region. Oil price per barrel estimates from Goldman Sachs rose to \$102, \$114, \$115 and \$120 for quarters 1, 2, 3 and 4, respectively, of 2012.



Gold prices gained a modest 1.5% in November, hitting \$1,750 by month-end. Mixed news during the month caused prices to fluctuate, but not to swing heavily in either direction. In a reaction to currency movements, Central Banks around the world bought more than double the amount of gold in the third quarter than in the second quarter, and almost seven times more than one year ago. Fundamentally, there is room for gold to continue a general upward trend, but until more clarity is seen in European and international markets, there is no clear path for the price of precious metals.

### Real Estate

The FTSE NAREIT All REIT index was down 3.53% last month, bringing it to 2.61% year-to-date. Every property sector and subsector struggled in November. Some of the worst performing sectors were industrial/office and residential, down 5.07% and 5.62%, respectively. The manufactured homes subsector of residential posted losses of 6.42%, but still look to close out the year on a positive note, up 12.39% year-to-date. Shopping centers were also hit hard last month dropping 5.71%, currently down 4.37% on the year. However, there is hope this sector could escape red territory with a strong December thanks to the holiday season.

After two years of stable credit trends, Fitch Ratings announced it may revise its outlook on the U.S. equity real estate investment trust sector next year depending on the direction of the broader economy. In a report from MarketWatch, the ratings firm noted the fiscal prudence of equity REITs will also be a key factor in which direction the outlook may head. The report went on to state the sector is likely to see more merger and acquisition activity in 2012. Asset prices are still well below peak valuation in several markets, which Fitch claims may put REITs in a prime position to be more attractive next year. Furthermore, Fitch believes tenant growth is expected to remain calm in the coming year, keeping space demands for commercial real estate at modest levels. The firm sees solid liquidity along with relatively unchanged leverage and coverage metrics next year, despite macroeconomic uncertainty.

### Hedge Funds

The strong performance in October was short lived for hedge funds as they quickly turned back into the red for November. The HFRX Global Hedge Fund Index fell 0.87% for the month, down 8.48% on the year. Having missed out on most of October's stock market rally, the index once again underperformed the Standard & Poor's 500 Index, which lost 0.5% in November. The Dow Jones Credit Suisse Core Hedge Fund Index was also down for the month losing 0.95%, down 7.03% on the year. All but one of the seven strategies tracked were in the red for November, with convertible arbitrage posting the largest negative returns, down 2.35% for the month and 8.84% year-to-date. Managed futures funds, one of the few bright spots this year, rose 0.52% in November, but remain down 4.69% on the year due to a 5.07% drop in October.

The third quarter hit hedge funds hard with market volatility due to the ongoing European sovereign debt crisis and increased correlation among asset classes, causing hedge funds to go out of business at their fastest pace in more than a year. John Paulson, who oversees \$28 billion, lost 46% this year as of the end of November in one of his largest funds primarily because of missed bets on an economic recovery. Paulson's fund remains fortunate, however, in its ability to stay afloat. According to Hedge Fund Research, the number of funds liquidating rose to 213 in the third quarter, the worst three-month period for the industry since Q1 2010, after 191 hedge funds shut down in the second quarter. Furthermore, hedge funds posted third quarter investment losses of 6.2% on average, the industry's biggest quarterly decline since the collapse of Lehman Brothers in September 2008.



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