Citizens Bank & Trust Market Review

September 2012

[In This Issue]

Citizens Bank & Trust

The Fed makes its case for more stimulus.

Recent Economic Indicators

Thomson Reuters/ Univ. of Michigan Consumer Sentiment	79.2
Consumer Confidence	60.6
Existing Home Sales, Monthly Change	2.30%
New Home Sales, SAAR*	372,000
Personal Income, Monthly Change	0.30%
Personal Consumption Expenditures, Monthly Change	0.40%
Non-farm Payroll Increase/Decrease	96,000
Unemployment Rate	8.1%
ISM Non-Manufacturing Index	53.7%
ISM Manufacturing Index (PMI)	49.6%
New Durable Good Orders, Monthly Change	4.2%
Industrial Production, Monthly Change	-1.2%
Capacity Utilization	78.2%
Retail Sales, Monthly Change	0.9%
CPI, Monthly Change	0.6%
CPI Core, Monthly Change	0.0%
PPI, Monthly Change	1.7%
PPI Core, Monthly Change	0.2%
U.S. Trade Deficit	$42.0 billion
2Q12 Non-farm Productivity, Quarterly Change, SAAR*	2.2%
2Q12 Real GDP, Quarterly Change, SAAR*	1.7%

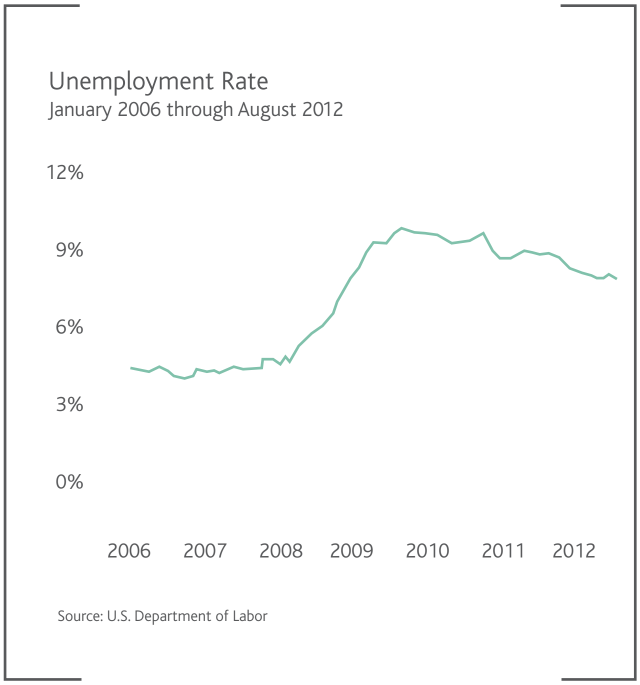
*Seasonally Adjusted Annual Rate
Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, the Federal Reserve, Thompson/Reuters/University of Michigan, Institute for Supply Management, National Association of Realtors, The Conference Board.
Values reflect most recent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

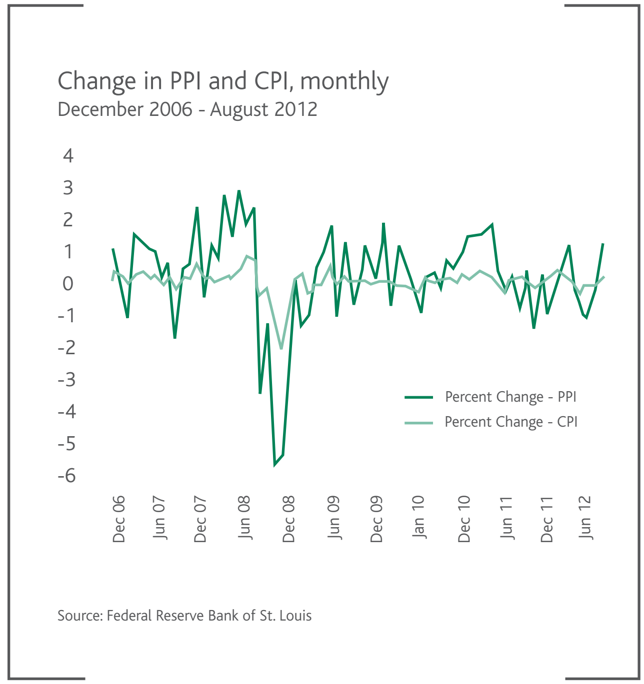
Overview

The United States economy grew slightly faster in the second quarter than originally reported as exports were stronger and consumer spending grew more than initially thought. The first revision showed GDP growth of 1.7% from April to June, up from the 1.5% figure first reported and in line with expectations. The upward revision was a good sign and shows the recovery continues, but the economy is still not growing fast enough to put a meaningful dent in our nation's unemployment numbers.

The U.S. trade gap edged up to $42.0 billion in July from $41.9 billion the previous month, but this was less than the $44.3 billion analysts had been forecasting. The trade gap remained in check due to a $1.6 billion improvement in the petroleum deficit, but with the increase in oil prices recently this is likely to reverse in the next report. There was more bad news for manufacturing as exports decreased 1.0%, led by a $2.4 billion drop in industrial supplies.

The Fed minutes released this month from the July 21-August 1 meeting included language that indicated the Fed is preparing to launch a new round of stimulus. "Many members judged that additional monetary accommodation would likely be warranted fairly soon unless incoming information pointed to a substantial and sustainable strengthening in the pace of the economic recovery." These beliefs were not unanimous as "One member judged that additional accommodation would likely not be effective in improving the economic outlook and viewed the potential costs associated with such action as unacceptably high." Later in the month during his much anticipated speech from Jackson Hole, Wyoming Federal Reserve Chairman Ben Bernanke hinted at additional easing. He furthered his case by saying the economy "is obviously far from satisfactory," and the "stagnation of the labor market in particular is a grave concern not only because of the enormous suffering and waste of human talent it entails, but also because persistently high levels of unemployment will wreak structural damage on our economy that could last for many years." Regardless of whether or not it is wanted or needed, the Fed clearly telegraphed that additional action was on the way.





Employment

Initial jobless claims fell a sizeable 12,000 to 365,000 for the final week of August, but the monthly employment situation report was not as strong. The monthly jobs number came in less than expected for the month of August, increasing the likelihood of additional easing from the Fed. The market was projecting an increase of 125,000 but only 96,000 jobs were added during the month, according to the Labor Department. The private sector continues to be the only source of job growth adding 103,000 while the government shed a further 7,000 from the payrolls. The unemployment rate dropped from 8.3% down to 8.1%, but the improvement was in large part due to a sharp 368,000 person drop in the labor force.

Consumer Confidence and Spending

Personal income and consumer spending were up 0.3% and 0.4% respectively for the month of July, indicating the consumer's condition is improving. Despite this improvement the Conference Board's consumer confidence index was down almost 5 points this month to 60.6 as pessimism grew about the outlook for future conditions.

July retail sales came in at a strong 0.8% gain after a disappointing June, showing the largest jump since February. Back-to-school shopping boosted the clothing component of the figure, and all other contributing factors were positive for the month. The release beat analyst estimates significantly, but did follow two dismal months of previous retail sales reports. While one month of positive data does not make a trend, this could be an indicator that consumer spending could be at an inflection point. As consumer spending is the largest part of GDP, further improvement in this number could boost the economy in a significant way.

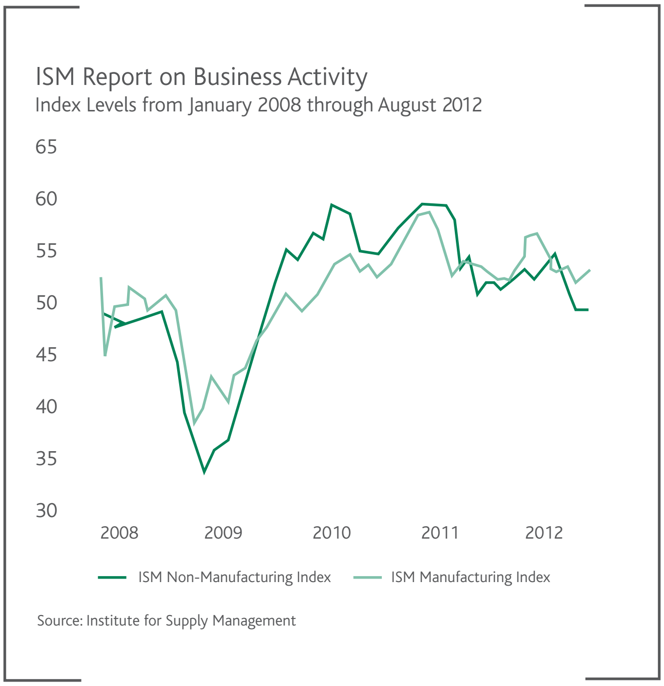
Inflation

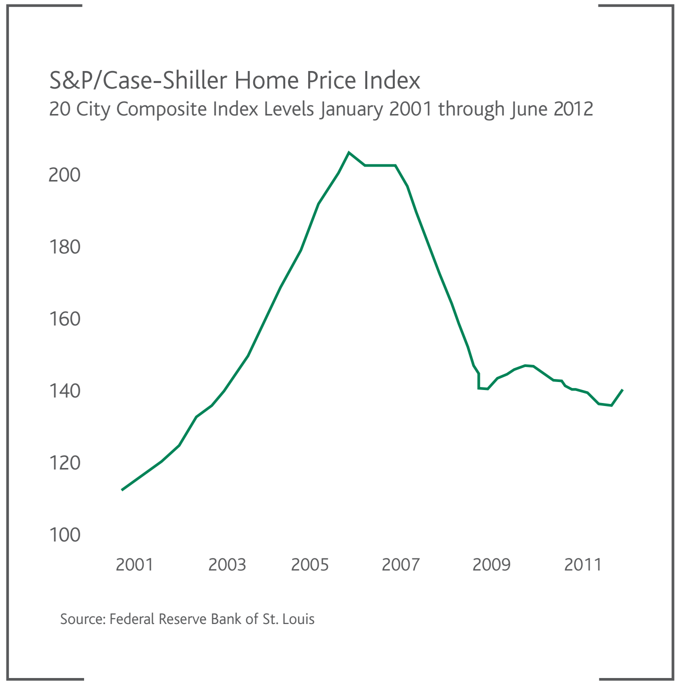
Inflation remained level in July as CPI numbers were flat. Energy prices fell slightly but gasoline was up 0.3% while apparel, travel, and medical components fell. August looks to bring significant rises in energy and food costs, likely pushing CPI figures into positive territory. The Fed may see this as a green light for further easing, but rising food and energy prices in the coming months might make up for the soft CPI numbers this summer. Although food price increases from the drought have not been seen in stores yet, the outlook for inflation expectations is on the rise.

Business Activity

There were mixed reports on the strength of U.S. manufacturing this month. Industrial production beat estimates to climb 0.6% in July curbing some pessimistic sentiments about the manufacturing sector. Manufacturing was strong, supported mostly by motor vehicle production gaining 3.3%. Mining was also a significant contributor for the month. Durable goods orders were also up, climbing 4.2% in July as strong aircraft orders boosted the headline number for the second month in a row. Stripping out civilian aircraft orders – which rocketed up 78% – and other transportation equipment, orders fell 0.4% indicating that there is some softness in other areas of manufacturing. Manufacturing data has been tepid over the past couple months, and overall these reports were neutral to moderately positive.

The outlook for the manufacturing sector of the economy did not look as good according to the Institute for Supply Management (ISM). The ISM's purchasing manager's index came in at 49.6 for August indicating slight contraction. Of more concern was the new orders component which contracted for the third straight month coming in at 47.1. The lack of new orders is having an obvious impact on production which fell 4.1 points to 47.2. In contrast to weakening manufacturing the much larger services side of the economy continued to show wide strength. The ISM's non-manufacturing composite was up 1.1 points to 53.7 – the best monthly gain since May. The positive side of both reports was employment, representing the strongest component of each, which should indicate a stronger job market.





Housing

The housing market may help boost economic growth in the second half of the year as recent data continues to indicate improvement in that market. Existing home sales were up 2.3% during the month to an annual rate of 4.47 million after falling 5.4% in June. This is 10.4% higher than in July of last year and indicates that the housing market is recovering. Median prices are up as well, rising 9.4% over the 12-month period to 187,300 as fewer sales were made in the lower price range. The limited supply of entry-level homes may be holding back activity as there is not much inventory in the first-time home buyers' budget and investors with all-cash offers are eating into much of what little there is. New home sales also rebounded 3.6% to an annual rate of 372,000 after falling in June. Supply is tight at just 4.6 months as compared to 6.7 months this time last year, and with increasing demand this should lead to more construction activity in the coming months.

The Case-Shiller 20-city home price index rose for the fifth time in a row, up 0.9% in June. The year-over-year growth rate came in up 0.5% – the first positive reading in nearly two years. With prices improving and mortgage rates near 40-year lows, the housing market looks poised for a revival.

World Economy

News on economic growth across the pond was not as positive as second quarter eurozone GDP dropped by 0.2%. There were some bright spots; Germany and France beat expectations for GDP growth, with Germany showing +0.3% and France unchanged (consensus predictions were +0.2% and -0.1%, respectively). Analysts estimate Germany's growth will not be sustainable in the coming quarters because of falling new orders reports. Regardless, there is no doubt Germany remains a strong point in the eurozone economic system.

The big news from Europe though was President Mario Draghi outlining a plan to buy euro area government bonds. The ECB will engage in outright monetary transactions to "address severe distortions in government bond markets," which he said stem from "unfounded fears on the part of investors of the reversibility of the euro." There will be no limits on the size of the purchases, but governments who want the ECB to buy its bonds will be subject to a program of reforms and oversight. The move is one of the most significant we have seen yet in dealing with the sovereign debt crisis.

Meanwhile China's General Administration of Customs reported exports from the world's second largest economy grew only 1% in July from the previous year. It was a significant slowdown from the 11.3% year-over-year growth rate in June and reduced the country's trade surplus 16.8% to $25.2 billion for the month. It is evident that China is getting hurt far more than the U.S. by Europe's weak economy.

With the exception of U.S. Treasuries and TIPS, most sectors post gains.

Fixed Income Current Yields		8/31/12
3 Month U.S. T-bill		0.09%
2 Year U.S. Treasury		0.22%
5 Year U.S. Treasury		0.59%
10 Year U.S. Treasury		1.57%
30 Year U.S. Treasury		2.68%

Total Returns	Month	YTD
Barclays U.S. Aggregate	0.07%	3.85%
Barclays U.S. Govt./Credit	0.02%	4.35%
Barclays U.S. Municipal Bond	0.11%	5.43%
Barclays U.S. Corp. High Yield	1.17%	10.59%
Barclays U.S. Long Credit A	-0.46%	10.99%
Barclays U.S. Treasury 20+ Year	-1.31%	6.79%
Barclays Global Aggregate	0.86%	3.56%
Barclays Emerging Markets	1.22%	12.40%

1 Month and 12 Month ending 8/31/12.
Source: U.S. Department of the Treasury, Barclays Capital
Values reflect most recent data available at time of publication.

Overview

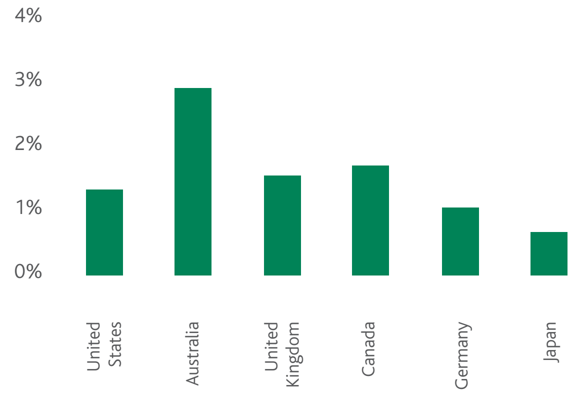
The rally in risk and spread sectors continued for a third straight month, although gains declined relative to those seen in June and July. In a sign the risk-on trade endures, the best performing global asset class over the past three months has been Greek government bonds, and over the last six months it has been Portuguese government bonds. Meanwhile U.S. Treasuries posted negative returns for the month, with some strategists suggesting market participants' assessment of risk in the markets may have taken an optimistic turn. However, few investors are willing to declare the Treasury market's long bull run over, viewing higher yields as an attractive level to increase positions. These bond bulls say European leaders have a record of disappointing in the three years since the sovereign debt crisis began, and will do so again causing another flight-to-safety trade. Still, bond market trading has been seasonally light, suggesting price movements after Labor Day, when traders return, will provide a more accurate read on investor sentiment.

Domestic bond-buying stimulus raises the possibility of inflation. Although inflation is not currently a concern from a labor cost perspective, the perception that the central bank will do whatever it takes to reflate the economy has some market participants concerned. The yield gap, or difference in yields, between Treasuries and similar maturity TIPS (Treasury Inflation-Protected Securities), an indication of traders' outlook for consumer prices, widened to its highest level in 13 months. However, because nominal yields on TIPS with maturities out to ten years remain negative, we continue to feel these securities offer investors an extremely low expected return/high risk opportunity.

Investment Grade Corporate Spread
In Basis Points, through August 2012

Source: Merrill Lynch

10-Year Government Bond Rates
Latest Yield as of 8/31/2012



Source: Bloomberg

Corporate

The investment grade corporate sector finished the month modestly higher, gaining 0.22% and bringing year-to-date gains to 7.91%. Corporate bond new issuance surged for the month as yields continue to hover near record low levels and sentiment out of Europe improved, leading to what could be the largest supply year on record. Despite these record supply levels, demand for investment grade paper remains robust, as evidenced by low to negative new issuance concessions by corporations. Similar to last month, strategists expect new issuance to remain robust given a lack of high quality spread alternatives to Treasuries and the perception of investment grade corporates as a safe haven asset during times of high volatility. Looking ahead, despite the significant outperformance of financial sector bonds this year, we believe this sector remains attractive given better than expected operating earnings and balance sheets.

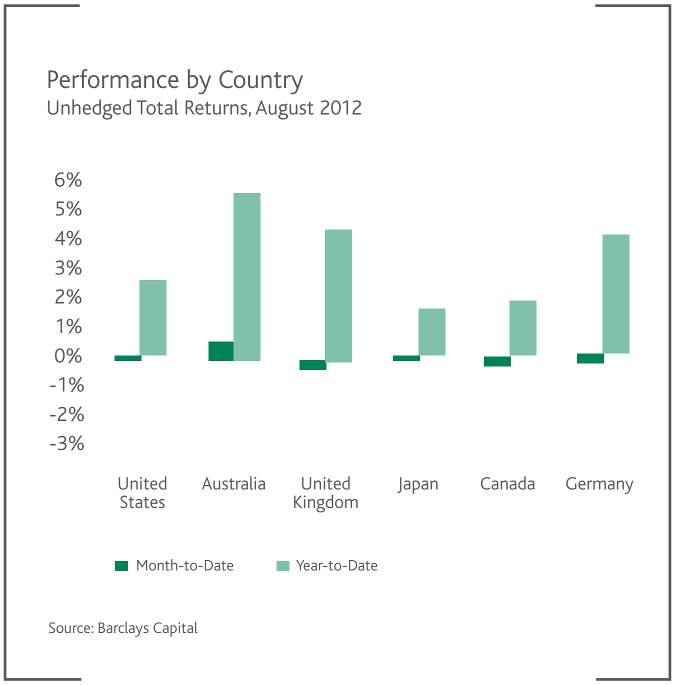
High yield bonds rallied 1.17% for the month, bringing year-to-date gains to 10.59%, as spreads continued to tighten and mutual fund inflows increased. Although strength in the high yield sector may persist in the short-term as investors reach for yield, many strategists now feel investors should focus on other areas of the market going forward given the considerable rally during the first eight months of the year combined with spread compression.

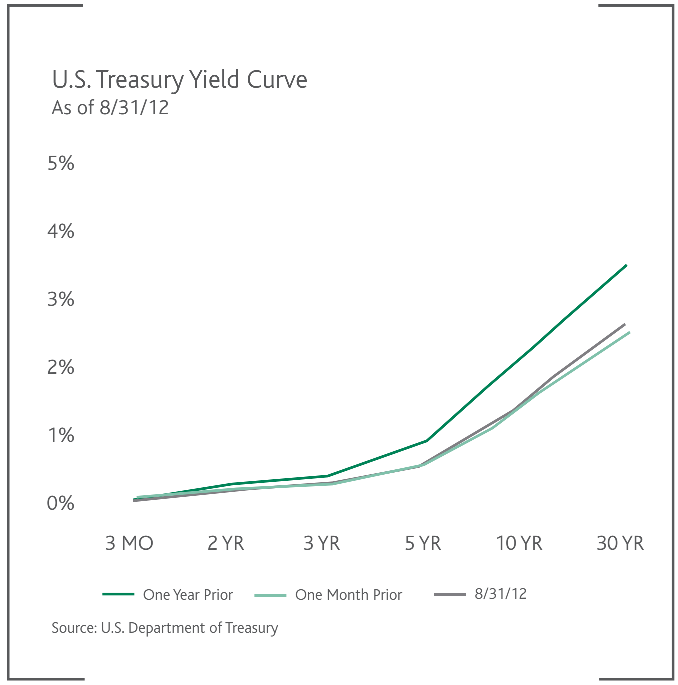
Municipals

After a robust rally last month, the Barclays Municipal Bond index rose only modestly by 0.11%, bringing year-to-date gains to 5.43%. From a supply perspective, in spite of record low borrowing rates, municipal bond new issuance has been constrained by state and local government's capacity to take on additional debt service expenses. Although new issuance over the first eight months of the year exceeds last year's level by 13%, it pales in comparison to 2009 and 2010 when the economy transitioned from a deep recession to the first stages of a recovery. Looking forward, because municipality budgets remain tight, many strategists expect "new money financings" to remain low despite the need for infrastructure and other related area improvements.

On the demand side, new longer-maturity deals continue to be well oversubscribed, given modest new issuance in this sector of the market. At the same time, demand from the retail investor strengthened with bond mutual fund inflows increasing considerably relative to last month, and odd-lot purchases showing renewed interest from individuals and separately managed accounts, according to Citigroup research.

Our recommendation in the muni space remains mostly unchanged again from last month; investors should pursue selective selling on the long end of the yield curve and among weaker credits rated BBB and below, given excessively robust demand in these areas. We continue to recommend AA and A rated municipal bonds, with a focus on essential service revenue credits, in the five- to 10-year maturity range for moderate to aggressive investors, and a one- to five-year focus for conservative investors.





International

The Barclay's Global Treasury ex-US index gained 1.00% on an unhedged basis, and 1.22% on a local currency basis, consistent with a mostly unchanged U.S. dollar against other major currencies. Many safe-haven countries fell modestly, with, Germany, Canada, France and the United Kingdom posting modest losses for the month. Italy (+3.24%), Ireland (+1.54%) and Spain (+1.19%) outperformed as investors returned to some of the riskier eurozone areas as comments from ECB president Mario Draghi hinted at additional bond purchases.

Expectations the ECB will act have kept the financial markets in Europe stable for much of the summer. Since 2010, the central bank has stepped in several times to buy bonds of countries under heavy market pressure and now has over 200 billion euros of government bonds on its books. On August 2, Mr. Draghi suggested the ECB was open to more aggressive intervention to ease doubts about the survival of the euro, with the bank buying debt in the secondary market as long as the benefitting countries first ask for help from the eurozone's bailout fund. This rescue fund can buy bonds directly at auction, but its support is linked to strict conditions including budgets cuts and pension reform. These conditions have made Spain and Italy reluctant to ask for help, perhaps in the hope that the ECB program could push down borrowing costs without further reforms.

Puerto Rico's Debt Overload

In May of this year, we recommended the sale of all Puerto Rico municipal bonds, despite having an investment grade rating by Moody's and S&P. We suggested the region was extremely leveraged as measured by debt, unfunded pension liabilities and health care as a percentage of GDP. Given their poor economic status, we felt it was unlikely they would be able to generate sufficient tax assessments to meet these obligations, suggesting the market would recognize this risk leading to pricing pressures.

We might have been early, but in recent weeks, Puerto Rico's bonds have come under considerable pressure, underperforming similarly rated municipal bonds by a wide margin. Many investors are particularly concerned about an upcoming gubernatorial election where the challenger is leading in the polls. Substantial questions surrounding the challenger's willingness to follow the fiscally conservative path set by the current governor have market participants particularly concerned about the likelihood of defaults. The combination of a weak economy, the political environment and one the most severe pension underfundings of any municipality has led to recent underperformance. Looking forward, some strategists feel Puerto Rico paper could slide even lower as more institutions move to reduce their exposure to these bonds in an environment where "bid side" remains weak.

The summer stock market rally continues into August.

Total Return	Month	YTD
Dow Jones Industrial Average	1.04%	9.19%
S&P 500	2.25%	13.51%
NASDAQ Composite	4.53%	18.64%
S&P 100	1.99%	15.09%
S&P 400 MidCap	3.48%	11.61%
S&P 600 SmallCap	3.79%	11.21%
Russell 2000	3.33%	10.60%
MSCI EAFE	2.36%	4.24%

1 Month and YTD total return as of 08/31/2012.

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

Overview

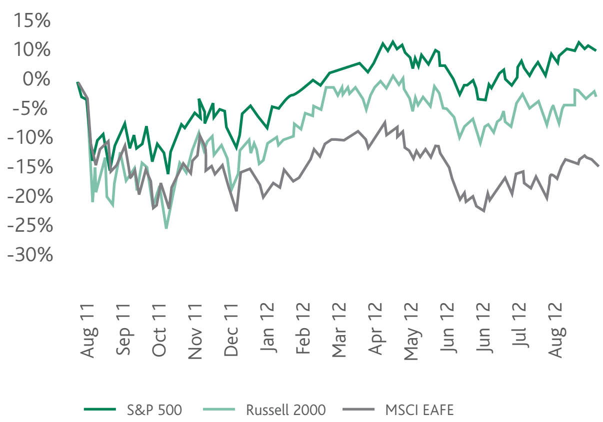
Most major stock markets were positive for the third month in a row in August, helped by a strong domestic payroll report early in the month, improved economic data in the U.S. and positive news out of Europe regarding the economic crisis. In the U.S., retail sales, building permits, consumer confidence and the Conference Board's Leading Economic Indicator Index all came in ahead of expectations.

The total return for the Dow Jones Industrial Average in August was 1.0%. The broader S&P 500 Index returned 2.3%, while the technology heavy NASDAQ Composite Index was very strong (+4.5%). Year-to-date through the end of August, the NASDAQ (+18.6%) continued to outpace the S&P 500 (+13.5%) and the Dow (+9.2%) on a total return basis.

Mergers and acquisitions in the month of August included M&T Bank Corp's bid to buy Hudson City Bancorp Inc. in a deal valued at about $3.7 billion, expanding its franchise in the eastern United States. Hertz Global Holdings agreed to purchase rival Dollar Thrifty Automotive Group for about $2.6 billion in a deal that will leave three companies with 95% of the U.S. car rental market. Aetna announced it would buy Coventry Health Care for $5.7 billion in cash and stock, a deal that will give the company access to an additional five million customers and increase its presence in the Medicare and Medicaid business.

Equity Performance

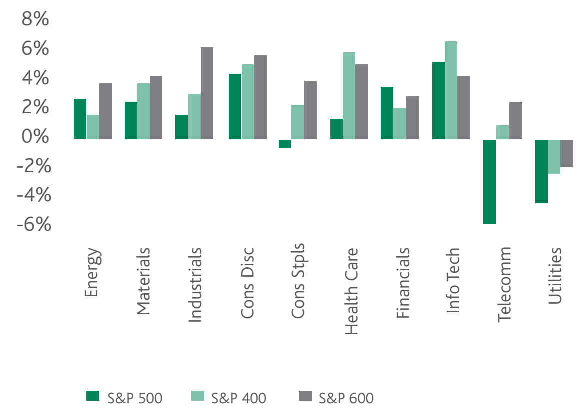
Trailing one Year Cumulative Price Return, as of 8/31/12



Source: Yahoo! Finance

S&P Sector Performance by Market Capitalization

8/31/12



Source: Standard & Poor's

Domestic Equity

The strongest S&P large cap sectors in August were Information Technology (+5.1%), Consumer Discretionary (+4.4%), and Financials (+3.2%). Better than expected earnings reports from Cisco (+19.6%) and CSC (+31.6%) helped propel the tech sector. Strong earnings reports from retailers sent stocks such as the Gap (+21.5%), JC Penney (+15.9%) and Lowe's (+12.3%) higher for the month. Utilities (-4.1%), Telecomm Services (-2.5%) and Consumer Staples (-0.5%) each had negative returns as lower beta stocks in general underperformed. With valuations for utilities stocks near the upper end of their historical trading range, Exelon, Con Ed and Entergy each declined more than 5% on a total return basis in August. For the first eight months of the year, Telecomm Services (+21.0%) and Information Technology (+20.3%) were the strongest sectors on a total return basis, with Consumer Discretionary and Financials both posting 17.6% returns. Utilities (+3.1%), Energy (+4.1%) and Materials (+7.8%) were the weakest sectors year-to-date.

According to S&P, large cap equities underperformed both mid cap and small cap for the month of August. The S&P 500 Index returned 2.3% compared to returns of 3.5% for the S&P MidCap 400 Index and 3.8% for the S&P Small Cap 600 Index. Year-to-date through the end of August, large cap equities continued to outperform with a total return of 13.5%, followed by 11.6% for mid cap and 11.2% for small cap.

With regards to investing style, growth stocks outperformed value in large cap and mid cap in August, but underperformed in small cap. The return for the S&P 500 Growth Index was 2.3%, just ahead of the 2.2% return for the S&P 500 Value Index. The S&P MidCap 400 Growth Index (+4.1%) was higher than the return for the S&P MidCap 400 Value Index (+2.8%). Finally, the S&P SmallCap 600 Value Index outperformed the S&P SmallCap 600 Growth Index (+4.0% versus +3.6%). Year-to-date through August 31, growth outperformed value across the market capitalization spectrum. The S&P 500 Growth Index outperformed the S&P 500 Value Index (+14.6% versus +12.3%), as did the S&P 400 Mid Cap Growth index over the Value Index (+12.2% versus +11.0%). The return for the S&P SmallCap 600 Growth Index was just slightly higher than the S&P 600 Value Index (+11.4% versus +11.0%).

International Equity

International equity indices were mixed in August. The broad MSCI EAFE Index of developed markets had a total return of 2.7% in U.S. dollar terms with strength in Spain (+13.2%), Greece (+11.1%) and Italy (+10.9%) all rebounding from weakness last month. Japan (-0.7%) declined slightly, but Germany (+5.2%), France (+5.9%) and the United Kingdom (+3.4%) each posted decent monthly returns. Late in July, ECB President Mario Draghi said the central bank would do everything within its power to fix the current problems in Europe, including measures that would help lower Spanish bond yields, and save the euro and eurozone in general. This helped to boost investor confidence in European stocks. In Japan, the Cabinet Office lowered its economic outlook, stating "risks to Japan's economy include a further slowing down of overseas economies and sharp fluctuations in the financial and capital markets." Year-to-date the strongest returns in developed markets have come from Belgium (+28.4%), Denmark (+24.9%) and Singapore (+23.3%). Of the major markets, Japan's index has been flat while Germany (+15.2%), France (+9.2%) and the United Kingdom (+8.2%) have all posted strong returns.

The MSCI Index for Emerging Markets declined slightly in August (-0.3%), as China declined 3.1%, but India and Brazil were slightly positive, +1.1% and +0.5%, respectively. In August, the HSBC China manufacturing index declined to lows not seen since March 2009. Additionally, the trade deficit declined due to slowing exports, but inflation remains well under control. Several banks cut forecasts for China's economic growth. Year-to-date, China (+2.3%), India (+9.4%) and Russia (+5.8%) all have posted positive returns, while Brazil (-5.8%) continues to struggle. Markets in Egypt (+51.1%), Turkey (+39.3%) and the Philippines (+26.1%) have been exceptionally strong.

Generally positive, but sluggish performance across the board.

Price Change	Month	YTD
Dow Jones UBS Commodity Index	1.30%	3.86%
Oil	9.20%	-5.37%
Copper	0.82%	-0.33%
Gold	4.53%	6.93%
NAREIT- All REITS	0.46%	18.62%
NAREIT-Industrial/Office	1.61%	17.14%
NAREIT- Residential	-3.48%	9.44%
S&P Global Property Ex-U.S.	0.29%	22.01%
HFRI Emerging Markets Index	0.72%	2.24%
HFRI Fund Wtd Comp. Index	0.83%	3.52%
HFRI Equity Market Neutral	0.35%	1.97%
HFRI Event Driven	1.27%	4.03%
HFRI Market Defensive	0.12%	0.30%
HFRI Merger Arbitrage	0.26%	1.37%
HFRI Short Bias	-3.94%	-10.16%

1 Month and YTD total return as of 8/31/12
Values reflect most recent data available at the time of publication.
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.

Overview

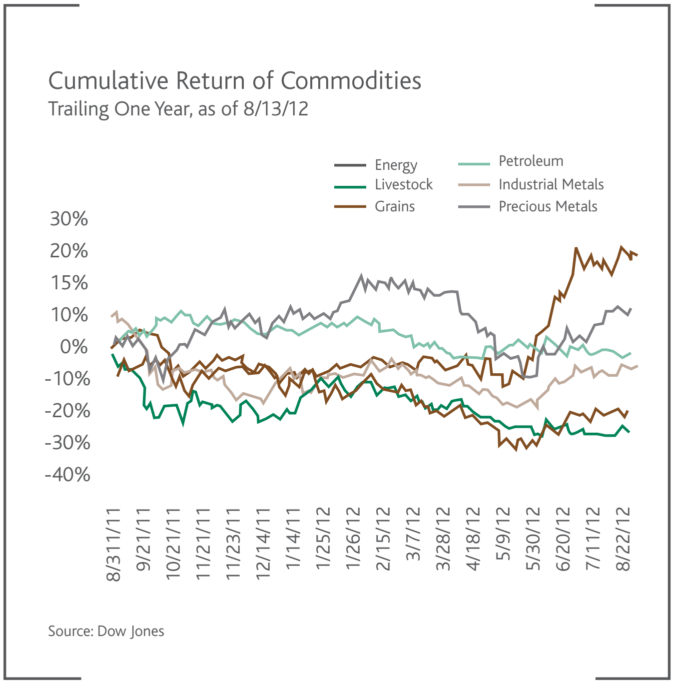
The general trend in alternatives for the month of August was slight gains that lagged the overall markets. Oil was the best performer in alternatives and prices are expected to continue to tick up in the face of uncertainty in the Middle East. Hedge funds reported slightly positive numbers, while REITs slowed their rally.

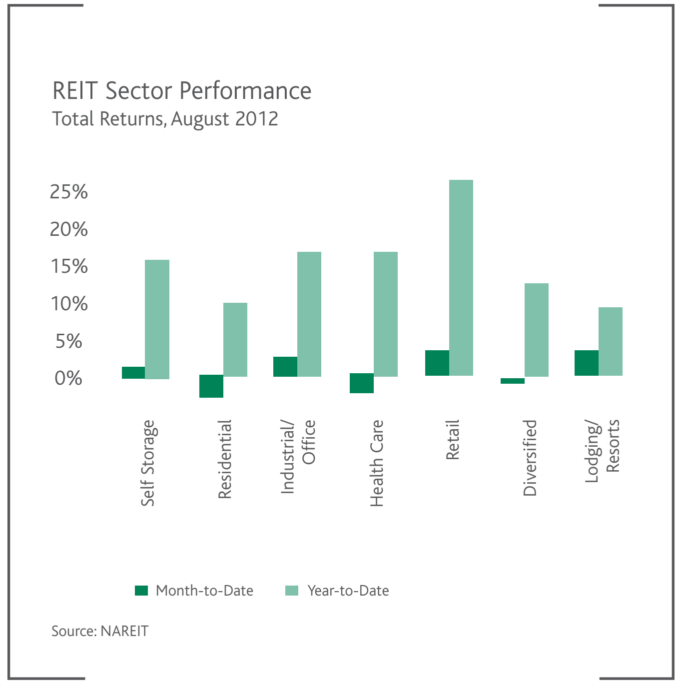
Commodities

In August the DJ UBS Commodity Price Index rose over 2% as energy and precious metals prices climbed steadily. A weaker dollar contributed to higher commodity prices. Agricultural prices rose modestly in August but did not see the continued spike many analysts predicted as a result of the U.S. drought. The exception was sugar, dropping over 12% in August and continuing its year-to-date slump. Soybean prices jumped 7% as concerns remain in the Mississippi delta, bringing the year-to-date return to 45.44%, joining corn and wheat with significant 2012 returns of 23.70% and 36.27%, respectively. Raw materials prices have risen over 20% since mid-June as the U.S. CPI numbers continue to climb.

Oil was up nearly 10%, climbing at the end of the month on Fed Chairman Ben Bernanke's comments about upcoming economic action. Oil demand is only rising slightly, but worries remain about Iran sanctions and Middle Eastern turmoil as well as how those elements could affect future supply. Goldman estimates oil climbing back up to $115/barrel within the next 3 months. Finally, natural gas prices fell over 12% in August as the U.S. found some relief from record-setting July heat. Price levels are expected to pick back up as the fall and winter months set in, but the severity of the winter will be a large factor in energy prices this year.

Industrial metals showed little movement in August, while the precious metals index jumped over 6%. Gold was up 4.5% while silver gained over 12%, marking 2012 gains of 7.7% and 12.6%, respectively.





Real Estate

Compared to recent months, August was "so-so" for real estate investment trusts (REITs). The FTSE NAREIT All REITs Index was up 0.46% last month, bringing its year-to-date gains to 18.62%. REITs still lagged the broader market last month, as the FTSE NAREIT All Equity REITs Index rose 0.12%, compared to the 1.98% gain in the S&P 500. Fitch ratings stated the latest round of quantitative easing, QE3, could have a positive influence on equity real estate investment trusts. However, according to Fitch, QE3 could have a more "meaningful impact on some REIT sectors versus others. If QE3 achieves the desired effect on the U.S. economy, equity REITs would benefit in the long term, approximately 12 to 24 months later." Fitch believes that ownership and long-term financing of commercial assets ties equity REIT performance closely to the general economy. Conversely, if the stimulus maintains or causes a decline in long-term U.S. Treasury rates, there could be an expected drop in all-in borrowing costs for REITs.

In terms of investment performance by property sector and subsectors, Retail REITs continue to surge. Comprised of Shopping Centers and Regional Malls, this sector was up 2.52% in August, bringing its year-to-date gains to 26.69%. Industrial/Office REITs had a strong month as well, gaining 1.61%, and now up 17.14% for the year. Industrial REITs were one of the best performing subsectors in August, adding 4.54%, up 21.83% so far this year. It appears the timber business is booming as well with Timber REITs now up 23.97% in 2012 after a 4.79% gain in August, which may bode well for the overall housing recovery. Residential REITs, made up of Apartments and Manufactured Homes, were one of the few sectors that took a loss last month, dropping 3.48%, but still up 9.44% year-to-date.

Hedge Funds

Hedge funds were generally up across the board in August, though they underperformed the broad market. The average hedge fund rose just 0.83% last month, according to Hedge Fund Research's (HFR) HFRI Fund Weighted Composite Index, compared to the S&P 500 which was up 1.98% in August. The benchmark is now up 3.52% on the year, well below the roughly 12% return from the S&P 500 through the same time period. Many attribute this year's lag by hedge funds against the equity markets to their failure to participate in the strong market rally in Q1 and Q3. However, most strategies and sub-strategies tracked by HFR were up last month. The best performing strategy was master-limited partnership funds, which rose 1.77% in August and are now up 3.09% for the year. Also, event-driven funds rose 1.27%, now up 4.03% year-to-date, while equity hedge funds gained 1.19%, up 3.49% on the year. After their 0.72% gain in August, emerging markets funds are now up 2.24% year-to-date.

Hedge fund liquidations in the first half of the year were up 14% compared to the first half of 2011. According to reports from HFR, a total of 192 funds closed up shop in Q2 alone. With regards to startups, there were 304 in Q1 and 245 in Q2, with Q2 being the lowest quarterly total since Q4 2010. HFR went on to note that the gap between the top and bottom decile of funds narrowed to 23.2% in Q2, with the top decile reporting an average gain of 7.0% and the bottom reporting an average drop of 16.2%. Also, average management fees remained largely unchanged at 1.57% across the industry, although funds launched so far this year carried an average fee of 1.65%. Incentive fees were also up industry-wide adding 4 basis points to 18.76%, while funds launched in 2012 carried average incentive fees of 18.23%, up 15 basis points over funds launched in 2011, according to HFR. Over 80% of funds charge incentive fees ranging from 16% to 20%. Kenneth J. Heinz, HFR president, believed new fund launches through mid-2012 declined from the prior year as a result of "weak performance in Q2, continued low levels of investor risk tolerance and uncertainty surrounding increased reporting requirements and infrastructure costs." Heinz went on to note that despite total hedge fund industry assets rising to a record level of $2.14 trillion in the first half of the year, "the capital raising environment continues to be challenging, particularly for small to mid-sized funds."

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