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In the midst of this market turmoil, we are seeing a lot of momentum and psychology driving markets often with little regard to some key fundamental themes. Below are some of our quick thoughts on where we see fundamentals.

Earnings

We are nearly done with earnings season in the US with over 90% of the S&P 500 having reported second quarter results and similar to previous quarters, results were better than expectations: 70% beat on the bottom line and 64% beat street revenue estimates. Consensus estimates for 2012 on the S&P 500 are currently around \$105 which implies the market is trading at 10.8x forward earnings, near the P/E of the last market bottom in March 2009.

Economics

Despite some recent softening, economic indicators are still pointing towards growth, not a recession. In the face of negative investor sentiment, economic indicators such as the ISM remain at expansionary levels. Recent employment numbers are improving whether you're looking at payrolls, which rebounded in July, or initial jobless claims, which have been declining. Even the US housing sector has seen some lift recently with starts and housing prices coming in a little better than expected. Outside the US, despite all of the concerns in Europe, Eurozone industrial production and PMI's continue to suggest economic growth, Japan is recovering faster than expected from the earthquake in March, and China remains on track for 9% GDP growth this year.

Sovereign Ratings

Counterintuitively (for some) the US downgrade by S&P has resulted in a large rally in US Treasuries. Despite many European sovereign debt concerns, we haven't seen any ratings action on the top rated European sovereigns. Extrapolations in banking sector liquidity implications from 2008 may not be relevant yet in an environment with unlimited liquidity and credit facilities at Central Banks.

Conclusion

Psychology continues to drive the market but we believe that current stock valuations are providing interesting entry points. While we recognize that volatility is high and will mostly likely remain high through the summer, we believe strategic investors should take this opportunity to add to their equity positions.

Anton Pil
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