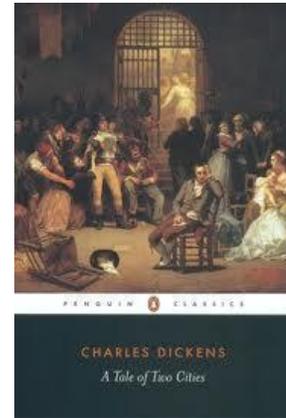


A Tale of Two Quarters

The opening lines of Dickens' classic 'A Tale of Two Cities', aptly describes the first half of 2012 just as well as it does the struggle of French peasants before and during the French Revolution.

"It was the best of times, it was the worst of times, it was the age of wisdom, It was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us."



In retrospect, the first quarter of 2012 was certainly the best of times as equity markets around the world rose sharply with very little volatility and good cheer seemingly carried over from the end of year holidays. In the U.S., the beleaguered housing market showed signs of a rebound and job growth continued to increase which in turn boosted consumer confidence. In Europe, the debt crisis was put on the back burner and investors instead focused on news that the European Central Bank had injected funds into the region's banks, fueling expectations of an economic turnaround in the region.

While investors focused on the good news, sovereign debt and political unrest continued as policymakers appeared reticent to admit the severity of the crisis and appeared reluctant to implement the necessary actions required to solve it. Meanwhile, in Asia, concerns mounted over a slowdown in economic growth in China, which sent commodity prices tumbling, and dampened the first quarter gains of the S&P/TSX Composite Index.

Just as quickly as the good times had begun, they ended as the second quarter began with volatility in equity markets, reminiscent of 2008. Investors once again focused their attention on the smoldering issues embedded in the European financial and political landscape.

In Greece, elections failed to produce a winner and investors were sent back to the polls again when coalition talks fell apart leaving the country with no government. Meanwhile, concerns continued to mount that anti austerity parties would wrest control of the nation's government and would as a result, decide to default on its debt obligations and leave the Euro zone.

In France, Nicolas Sarkozy lost the country's election to socialist Francois Hollande, who as Europe's chief critic of one-size-fits-all austerity measures caused many to worry about France's commitment of support going forward. Meanwhile in Spain, banks received bailout funding from the government, but did little to offset the concerns many still have over the stability of its banking system. As a result, by the end of the first half, Europe was firmly in the grips of a recession, China's economy continued to slow and investors watched political headlines with the hope that a resolution would emerge.

While a permanent resolution has yet to emerge, central banks continue to implement stimulative policies as countries such as China, Brazil, India, Australia, Norway and Denmark have all recently cut interest rates in an effort to move their economies forward. In the case of China, this cut marked the first such move in four years. On this front, the European Central Bank has also expanded its collateral rules to give lenders greater scope to secure funding while the U.S. Federal Reserve has committed to maintaining low interest rates until at least 2014 and while shying away from a third round of quantitative easing, they have opted to implement a close facsimile of it by extending Operation Twist for another six months, through to the end of 2012.

"All these things, and a thousand like them, came to pass in and close upon the dear old year."