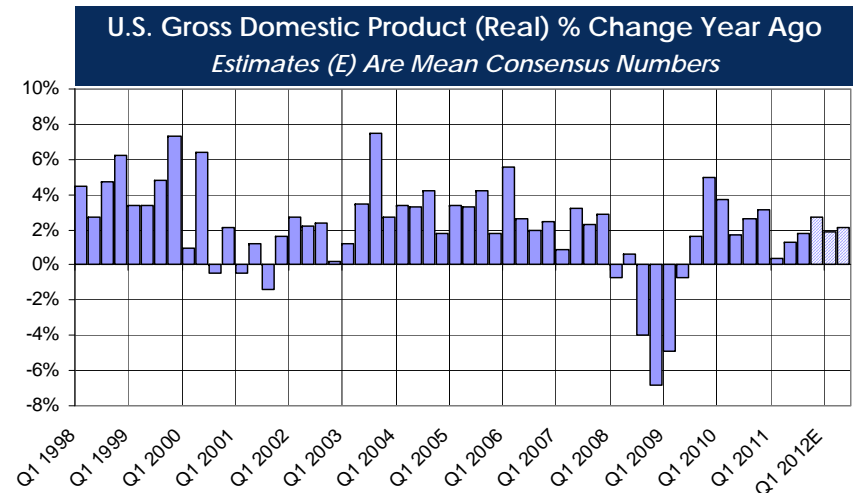


Economic Review and Outlook

January 2012

GLOBAL AND DOMESTIC ECONOMY

- The world economy is now vulnerable to a coincident global recession. Peripheral European Union (EU) economies are close to, if not already in recession. France and Germany are not yet in recession and still may avoid it. We expect that the U.S. will soon enter recession. Several emerging market economies are also close to recession. The coincident nature of this looming recession means it could be deeper than even bearish estimates suggest.
- While the developed economies may see a recessionary downturn in demand, the impact will be felt more and more strongly as one goes up the supply chain towards the supplier nations of the emerging markets. This is known as the Bullwhip Effect. For example, these markets would include China and India first, followed by Australia, Germany, Korea and Taiwan. The reverse of this pattern will exert itself once a recovery begins to take effect.
- Developed Europe faces further complications regarding the fiscal crises in Portugal, Italy, Ireland, Greece and Spain (PIIGS). The European Central Bank (ECB) has finally cut rates after a prolonged tight monetary policy. This tight policy accelerated the slowdown in the PIIGS. If Greece defaults, it would potentially bankrupt many European banks whose capital positions are too weak to absorb the necessary write-downs. Italian and Spanish defaults would mean even more severe problems. U.S. banks may be affected due to debt held as well as credit default swap (CDS) exposure.
- The ECB, the EU, the IMF and the Fed are constructing and funding vehicles for TARP-like assistance to troubled EU banks. They have or will provide liquidity to these banks, especially as investors have limited purchasing short-term bank paper thru money market funds. These measures won't fix the underlying PIIGS solvency issues.
- Market and economic cycles are more compressed compared to earlier post-WWII cycles. Shorter periods of expansion followed by more frequent slowdowns and recessions will make it more difficult to cure excess supplies of housing or labor. This could be deflationary.



INTEREST RATES, INFLATION AND CORPORATE PROFITS

- There is a divergence in central bank strategies globally. The Federal Reserve remains expansive and has promised to keep rates low through mid-2013. While QE2 affected currency values and fueled global inflation when it was in place, the program's conclusion has removed such inflationary pressures. The ECB has begun to ease. Other central banks, notably in Canada and around the Pacific Rim, have pursued neutral to hawkish policies to fight inflation in their own economies. This domestic inflation had shown up in higher food and industrially-sensitive materials prices.
- We expect corporate profits and margins to fall as global recessionary conditions take hold. Raw material prices should continue to soften as recessions develop and demand slackens.
- We expect a significant resolution to the growing U.S. deficits will wait until after the 2012 election. Bipartisan efforts, such as the Select Committee, have failed to address the problems.

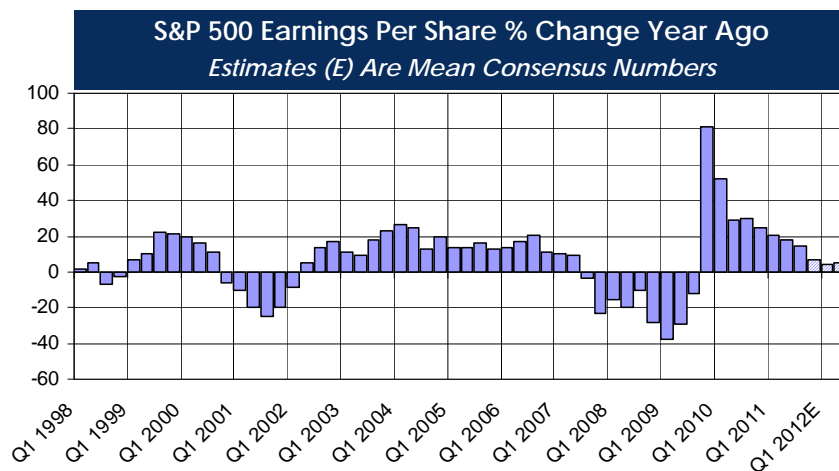
FIDUCIARY TRUST

Markets Review and Outlook

January 2012

MARKETS

- Estimates for 2011 earnings per share are 16% above those of 2010. Recently reported margins and earnings have exceeded expectations due to cost cutting, productivity gains and revenue growth. Job growth is non-existent. Earnings for 2012 are forecasted to grow 10% over 2011 which seems optimistic.



- The Federal Reserve, through low short rates, has made it possible to delever personal and clean-up corporate balance sheets. These actions push investors to take on risk to achieve returns.
- Market uncertainty regarding the global economic outlook, sovereign debt issues and continued financial stress have increased volatility. When heightened, these anxieties fuel the demand for gold, which can be viewed as a hedge against financial instability, be it inflation, deflation and/or currency devaluation.
- We expect that the U.S. dollar will decline on a secular basis, but it is seen as a safe harbor during uncertain times. Recently, it has appreciated versus the euro as investors flee the euro to safety.

- A weaker dollar would increase the cost of raw materials for U.S. firms, thereby compressing profit margins for manufactured goods.
- Low interest rates and a growing GDP helped stocks rise in 2010. We expect earnings and revenue growth will slow in the first half of 2012 as the global economy slows. In this environment high-quality growth stocks should be favored.
- Rising investor concerns about municipal bonds and the financial health of municipalities appear to be overdone. Yields on municipal debt are higher than those on single A corporate debt, making selected municipal bonds attractively priced.
- Corporations, especially in the U.S., continue to report record-high margins. Balance sheets are cash-rich, driving merger activity. Recently, equities had pulled back due to concerns about the global economy and Europe. Given the potential for recession, it is too early to commit fresh capital to the global equity markets.

WHAT WE LIKE; WHAT WE DON'T LIKE

- The 2011 and 2012 earnings outlook has begun to plateau. Inflationary pressures are expected to fall as economic activity slows into 2012. The potential for a global recession has us trimming equity exposure and decreasing beta.
 - We stress the use of high-quality companies for domestic equities, especially those with strong overseas operations.
 - Non-dollar exposure is accomplished by using international stocks and bonds.
 - Gold serves as a hedge against inflation and geopolitical risks.
 - We favor non-directional hedge funds and managed futures over fixed income for reducing overall portfolio volatility.