

Economic Review

At 2:46 p.m. local time on March 11, Japan was rocked by a magnitude 9.0 earthquake, the fourth strongest ever recorded. A resulting tsunami swept away cities and left damages estimated at over \$200 billion. The world watched nervously as several nuclear reactors were severely damaged and workers struggled to cool the radioactive cores and prevent a catastrophic meltdown and release of radiation. Germany responded with plans to shut its entire fleet of nuclear reactors, while plans for expanding nuclear power in the US and other countries were thrown into turmoil. The diminished outlook for nuclear power expansion puts US plans for “greener” energy into flux, as solar and wind energy are not currently capable of filling energy needs, especially as electric cars gain market share. Japanese industries hurt by the earthquake include autos, electronics, and fishing. As several auto part manufacturing plants were knocked offline, auto production in Japan was severely restricted, and US-built Japanese car production was slowed. Damages to electronics plants are expected to slow the drop in computer and television prices since many of the memory and chip components are made in Japan. Prices for lumber, steel, concrete, copper and other building materials are expected to rise when Japan begins the rebuilding process.

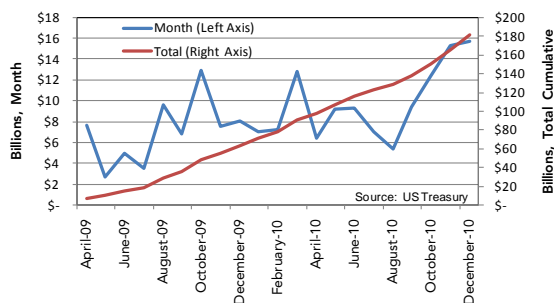
Japanese Yen vs US Dollar



US involvement in Libya escalated as NATO allies participated in enforcing a no-fly zone over parts of the country and launched over 140 Tomahawk cruise missiles at military installations. The intervention is expected to cost several billion dollars if it lasts beyond April. Oil markets responded by pushing prices over \$106/barrel.

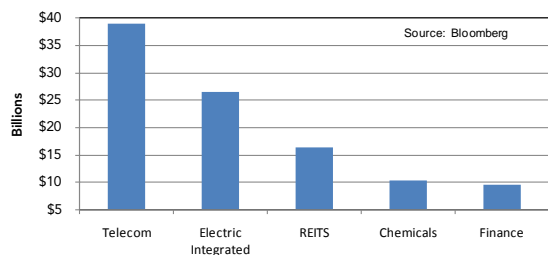
Exchange rates fluctuated greatly as the Bank of Japan injected \$183 billion into money markets following the earthquake. Expectations that Japanese firms and investors will sell foreign-denominated assets and bring money home caused a spike in demand for the Yen. The Federal Reserve, for the first time in over a decade, along with other central banks, coordinated to sell Yen and temper the currency's rise.

Build America Bonds Issuance



PIMCO, one of the world's largest bond managers, announced that its Total Return Fund had sold its Treasury exposure, concerned that interest rates would likely rise as the Federal Reserve ends its Treasury purchase program, also known as QE2, in June. Municipal bond issuance fell to levels last seen in 2000. The drop was attributed to the expiration of the Build America Bonds (BAB) program at the end of 2010. The program cut borrowing costs for issuers by offering federal monies to lower interest rates. Over \$181 billion in BAB securities were issued, with state participation reasonably mirroring population rankings. The Treasury announced plans to sell roughly \$10 billion of mortgage backed securities per month, until its \$142 billion MBS portfolio is depleted.

Top M&A Industries in 2011



The expiration of BAB and the end of federal subsidies to states have forced many states to cut budgets. Many state and local public-sector unions require pre-announcements of layoffs, hence layoff notices began to pick up in March. The announcements are expected to be more numerous in April. To facilitate budget cuts, several states pushed to limit collective bargaining rights for public employees, following in Wisconsin's footsteps. Ohio, Indiana, and Florida were close to implementing public-sector union limitations, while Idaho limited collective bargaining for teachers and ended teacher tenure. Wisconsin passed a measure to limit collective bargaining rights for public-sector workers, although the measure was temporarily halted by a state judge.

Market Returns

As of March 31, 2011

	March	3 Months	1 Year
S&P 500	0.0%	5.9%	15.6%
Russell 1000 Value	0.4%	6.5%	15.2%
Russell 1000 Growth	0.1%	6.0%	18.3%
Russell 2000	2.6%	7.9%	25.8%
MSCI EAFE	-2.2%	3.4%	10.4%
Emerging Markets	5.9%	2.1%	18.8%
Barclays Agg	0.1%	0.4%	5.1%
3-Month T-Bills	0.0%	0.0%	0.2%

Portugal's debt problems festered as the government voted against austerity measures needed to curtail spending and free up money to meet upcoming debt payments. Germany's Chancellor Merkel saw her party lose its majority in the Bundesrat. Merkel has backed financial support for fiscally troubled Euro-zone nations, and the loss adds uncertainty to future bailouts, especially if Spain is not able to get its finances in order.

M&A activity accelerated in March, as AT&T announced a \$39 billion takeover of rival T-Mobile. The move helps AT&T by eliminating a lower-cost competitor, and is likely to lead to higher prices.