

UNFCU | Financial Advisors™

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July 2012

Financial Markets Overview 2nd Quarter 2012



“The Scream”



The Norwegian painter Edvard Munch painted “The Scream” in 1893. Almost 120 years later many people in Europe (both citizens and politicians) seem to be ready to do just that in light of the ongoing sovereign debt problems.

The recent election in Greece has most likely provided only temporary relief as the fundamental issues have not yet been adequately addressed.



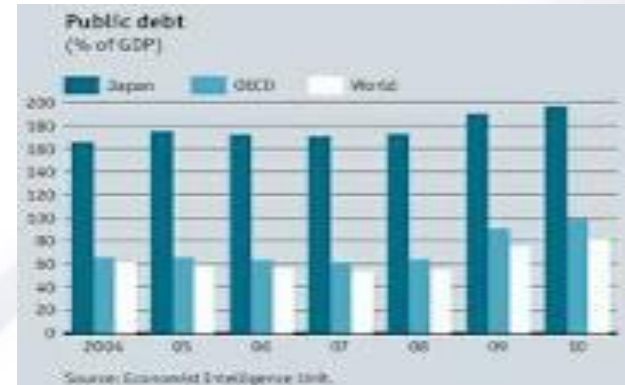
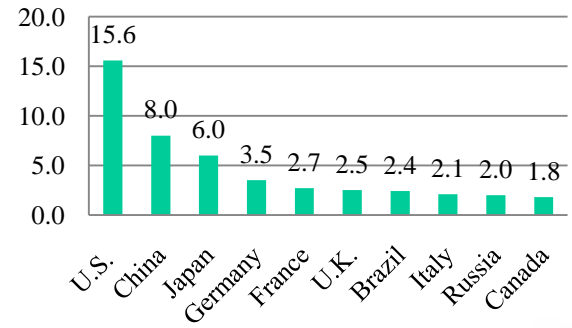
More Sovereign Debt Issues

- **Spain** formally applied for assistance regarding its main banks that are grappling with troubled real estate loans that threaten their solvency and the stability of the banking system.
- **Slovenia** also applied for help from the European Stabilization Fund
- And finally **Cyprus** applied for assistance from the Fund as well.
- **Japan** is facing difficulties financing its substantial budget deficit and a proposal to double their sales tax has led to a split of the ruling party. This is most likely leading to political uncertainty going forward.

The Japanese Economy

- Japan is the 3rd largest economy (behind the U.S. and China)
- Public debt to GDP ratio is near 200% (double the global and OECD averages)
- Fitch downgraded Japan two levels from AA to A+

The 10 Largest Economies
[Estimated GDP (trillions US\$)]



Economic Outlook in Europe has dimmed

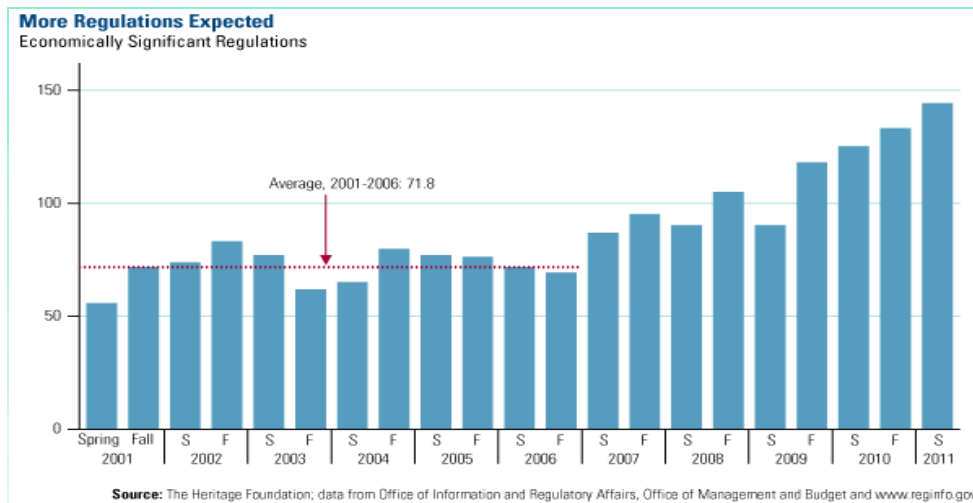
European Commission Real GDP Forecasts

	Spring 2012 Forecast		Change from Fall 2011	
	2012	2013	2012	2013
Germany	0.7	1.7	-0.1	0.2
France	0.5	1.3	-0.1	-0.1
Greece	-4.7	0.0	-1.9	-0.7
Spain	-1.8	-0.3	-2.5	-1.7
Italy	-1.4	0.4	-1.5	-0.3
Euro area	-0.3	1.0	-0.8	-0.3

Source: European Commission. Spring 2012 forecasts released May 11, 2012.

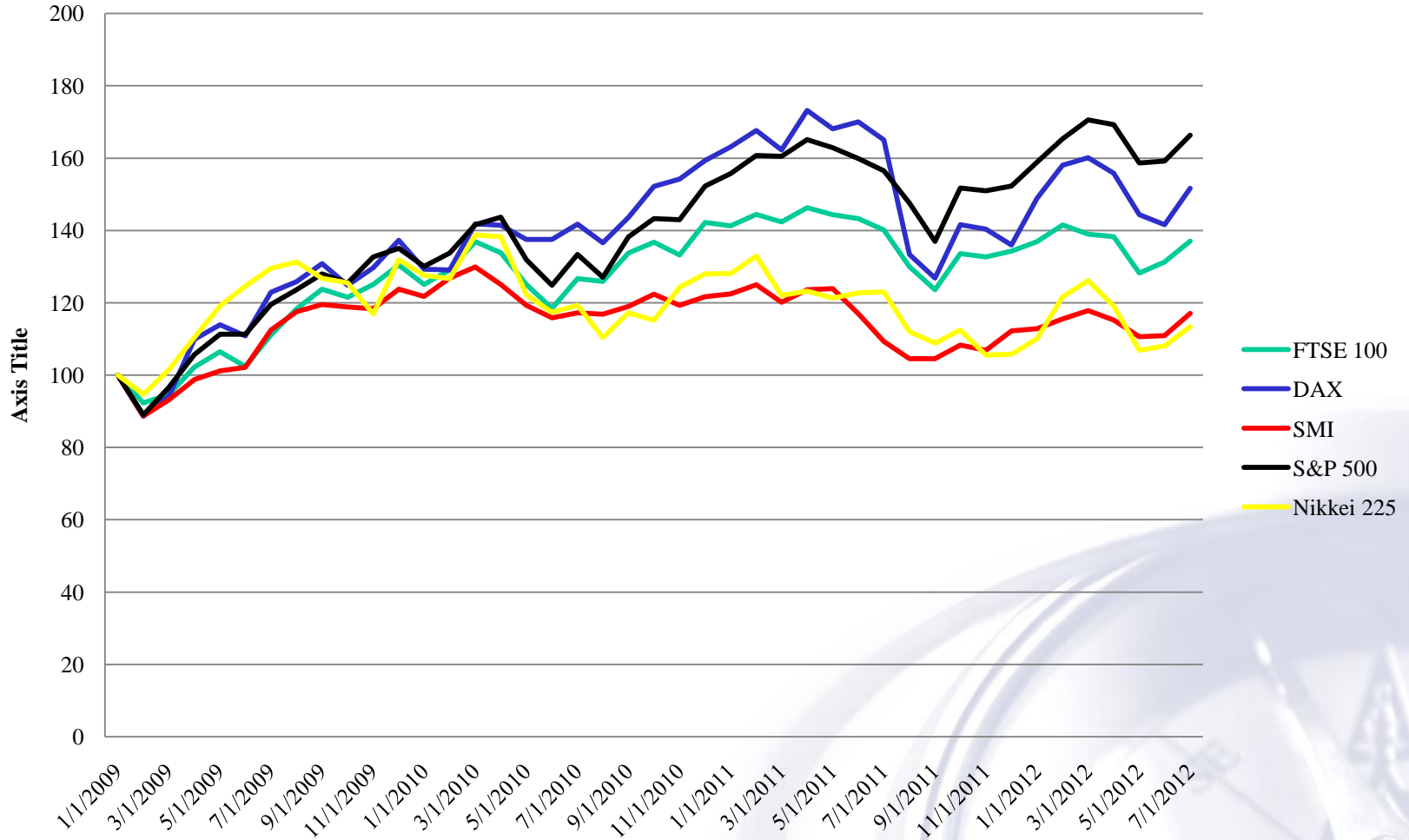
Government Regulations

- Increasing regulatory density in developed countries

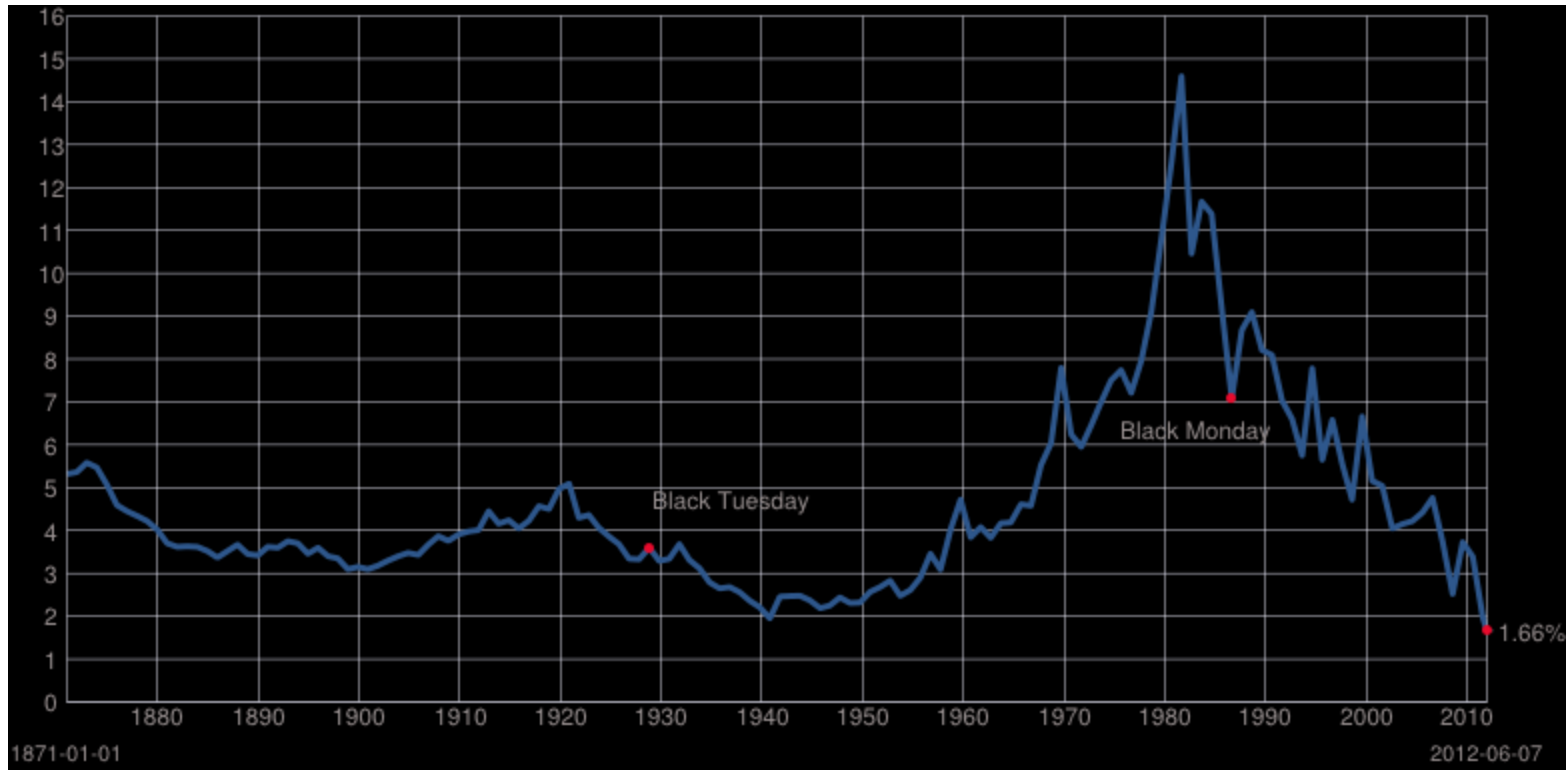


- Competitive disadvantage relative to Emerging Markets
- Loss of manufacturing jobs in developed countries as a consequence

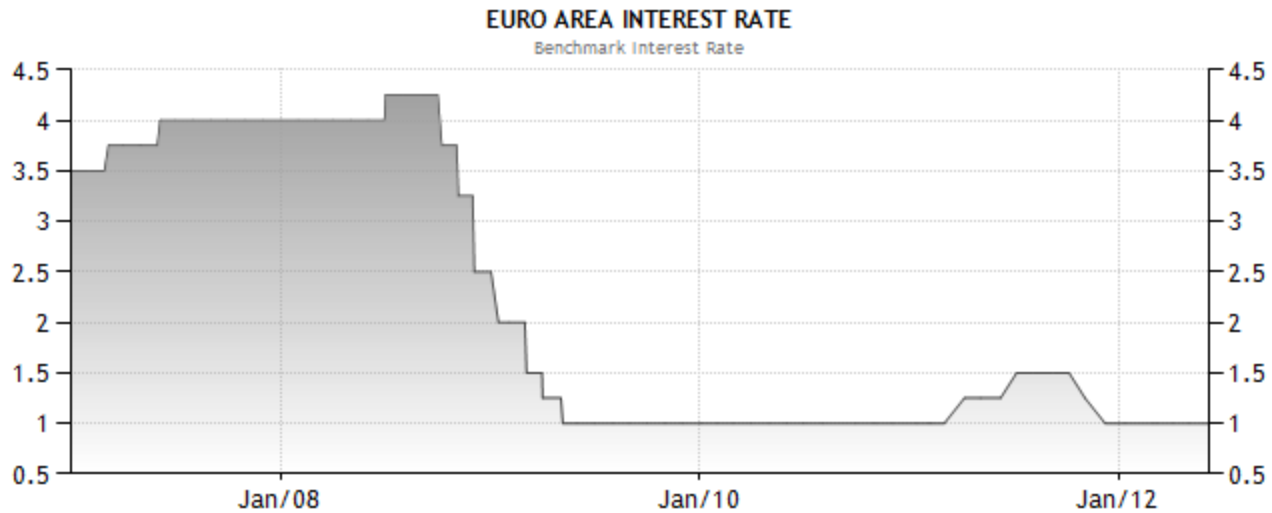
World Stock Market Indices



10 Year Treasury Yields



10 Year German Benchmark Yields



SOURCE: WWW.TRADINGECONOMICS.COM | EUROPEAN CENTRAL BANK

Conclusions

- Continued high volatility in financial markets
- Very low interest rates → possible increased risk
- Opportunities in equities markets
- Bottoming out of the U.S. real estate market

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