

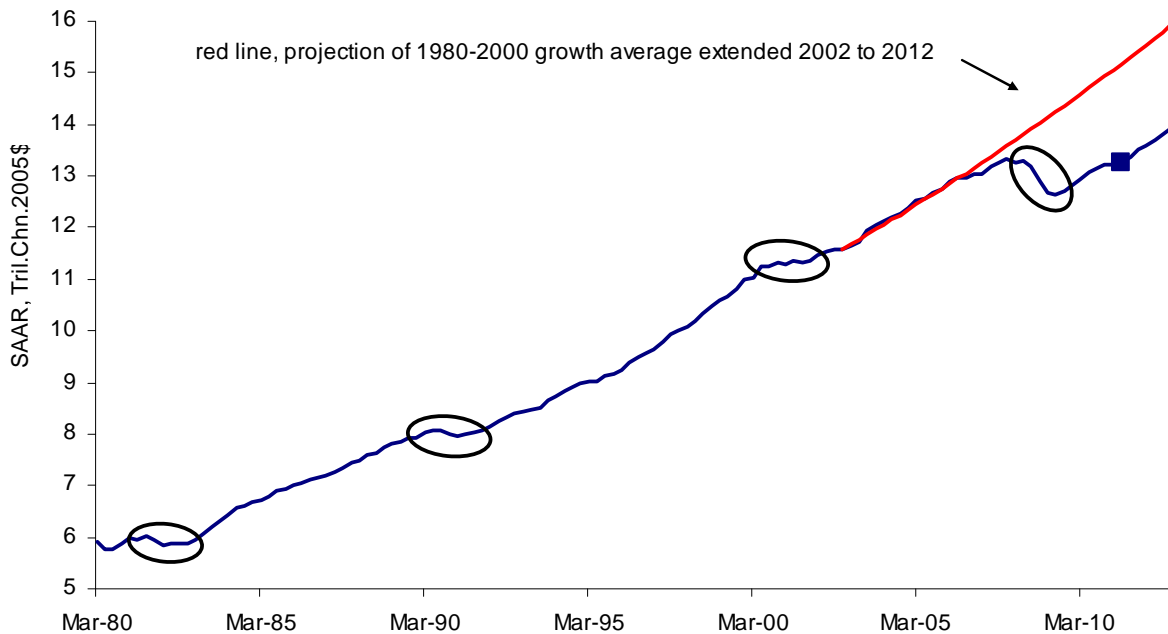
July 29, 2011

Second Quarter GDP Weak; Lowering Q3

While all of the ups and downs in equity markets in recent weeks have been attributed to the debt limit crisis, we think equity markets will, over time, primarily reflect second half GDP growth and profits. We don't think the August debt limit fight will improve the fiscal outlook, but there's still a chance that the debt limit will come up again in a few months offering an opportunity for pro-growth structural reforms including lowering the federal spending trend or selling federal assets.

- Second quarter GDP growth was below our 1.8% expectation. The first quarter GDP growth was lowered to 0.4% from 1.9%. Contributing to the 1.3% Q2 result, net exports provided 0.6% of the growth and business investment another 0.6%. Consumption was up a mere 0.1%. Motor vehicle output subtracted 0.1% from the second-quarter change in real GDP after adding 1.1% to the first-quarter change.

US Real GDP (last obs. Q2 2011 blue square, estimates to 2012)



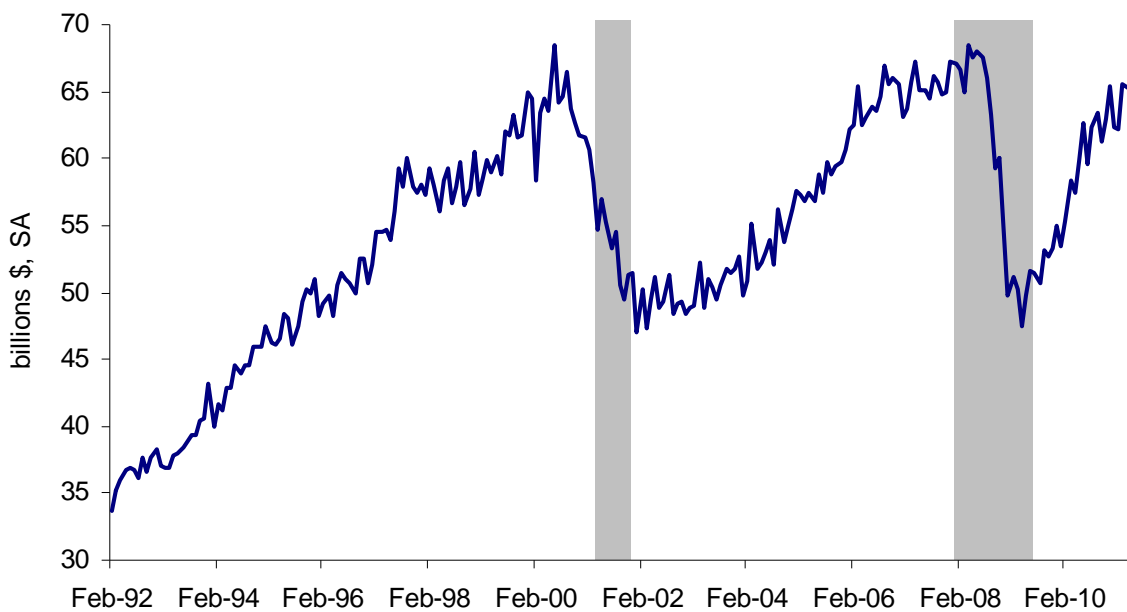
Source: Bureau of Economic Analysis; Encima Global

- Looking ahead, there are still foundations for somewhat faster growth in the third quarter than the second. However, **we're lowering our forecast to 2.0% from 3.5% based on disappointing auto production in July, the heat wave and Washington's negative impact on confidence and decision-making.** We'll see data on July auto sales shortly and ADP data on small business hiring on Wednesday, but third quarter growth hasn't started well. If the Administration begins shutting down payments due to the debt limit we will lower our third quarter GDP growth outlook more based on the number of days the shutdown extends.

On the positive side:

- Jobless claims fell below 400,000 yesterday. Orders for capital equipment fell in June from the strong increase in May but are continuing the uptrend from the 2008-2009 recession.

Nondefense New Orders for Capital Goods ex Aircraft (last obs. June 2011)



Source: Census Bureau; Encima Global

- Corporate profits have been strong and expectations for second half profits continue to increase, not decrease, based on both top line growth, cost cutting and earnings abroad. China's hard landing hasn't materialized, with 9.5% growth in the second quarter despite the production crash in Japan and the U.S. weakness.

Notes: This email and attachment are confidential and intended solely for the use of the individual to whom they are addressed. Encima Global LLC does not accept liability for the content, or for the consequences of any actions taken on the basis of the information provided. The information is not necessarily complete, and we make no warranty as to its accuracy.