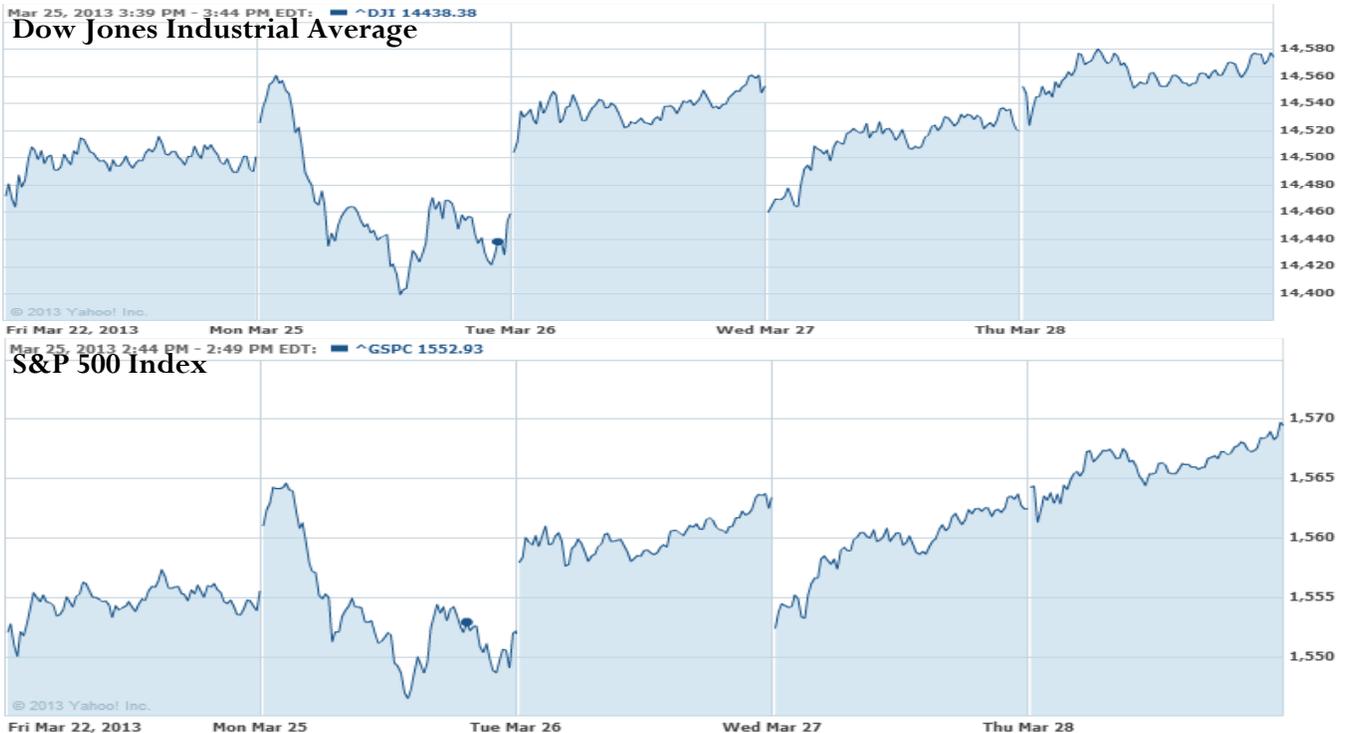


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MARKET RECAP

- Cyprus is currently facing an economic crisis and may impose losses of as much as 60 percent on Bank of Cyprus accounts exceeding 100,000 euros as a part of an aid deal to stop the country from going bankrupt. Banks were shut for nearly two weeks while the government negotiated a 10 billion euro (\$13 billion) international bailout, the first in Europe's single currency zone to impose losses on bank depositors.
- The gloom from Europe sent buyers into the safety of Treasuries on Wednesday, reversing momentum that was driving U.S. stocks toward a record high. Investors were also worried about Italy, where the ability to form a new government looked even more uncertain.

FOREIGN EXCHANGE

- The euro's fall against the dollar likely hasn't seen the worst of it yet. While, prior to Cyprus' debt situation, the euro had been gaining against all currencies due to competitive currency devaluations, the number of euro bears has been growing recently. The nature of Cyprus' bailout plan is unprecedented, with sharp losses in Cypriot bank deposits amounting to over 100,000 euros. Another problem has been the inconsistent communication by European policy-makers.
- Central banks around the world are increasingly searching for reserve currencies other than the original five: dollar, euro, yen, pound, and franc. The U.S. and U.K. have been experiencing credit downgrades, and if the U.S. Fed halts its bond-buying program, the value of U.S. Treasuries will likely fall. In contrast, Australian and Canadian bonds are rated triple-A. Despite the non-mining sectors of the Australian economy struggling, the central banks' demand for Aussie has kept it from staying below \$1.02. The International Monetary Fund has noticed the demand and considered designating the Australian and Canadian dollars as the new reserve currencies.
- The dollar stayed relatively stable even upon the reports of optimistic U.S. consumer spending and confidence figures. Despite facing higher payroll taxes and gasoline prices, private consumption rose by 0.7% in February, reflecting recent strength in the labor and housing markets. Moreover, the foreign-exchange markets were mostly on hold, ahead of a series of critical central bank meetings, including that of Japan, in which the new governor is expected to spur stronger monetary easing policies.

Market Highlights

Dow Jones Industrial Ave.	14,578.54 ↑103.79
S&P 500	1,569.19 ↑17.50
NYMEX	97.23 ↑0.65
10-YR. TREAS.	1.625
FED Funds Rate	0.05
Unemployment Rate	7.70

FIXED INCOME

- Kraft Foods Group Inc., Northfield, Ill., is adopting a liability-driven investing strategy, moving to an 80% fixed-income allocation for its \$5.46 billion in U.S. defined benefit assets. The move is one piece of a four-part strategy to “manage and reduce the volatility of expenses and cash outlays” related to the company’s pension plans, according to a fourth-quarter earnings guidance release. The remaining three parts are: adopting mark-to-market accounting; adjusting actuarial assumptions; and “executing a level funding strategy,” according to the release. Kraft also announced it would freeze its U.S. pension plans for current salaried and non-union hourly employees effective Dec. 31, 2019, according to the company’s 10-K, released March 21. Under the new LDI strategy, the asset mix will be approximately 80% fixed income and 20% equity.
- With equities yielding more than government bonds for the first time in a generation, many strategists are highlighting a major opportunity to buy shares. For us, the situation is more complicated than a choice between the two and we believe corporate bonds continue to have a role in the hunt for yield. In the 1950s, bonds were the dominant asset class for pension portfolios but a controversial speech by the manager of a large superannuation fund changed this when he advocated a 100 per cent equity allocation. As institutions increasingly focused on equities, yields fell below those on government bonds and this ‘reverse yield gap’ persisted for half a century.

COMMODITIES

- Japan is planning to start the world’s first futures contract for liquefied natural gas, marking the latest step toward creating a global market for the fuel. The market for LNG is poised to expand rapidly in the coming years, analysts say, as the U.S. increases its exports of the fuel and global demand rises.
- Copper futures slumped to a seven-month low on worries about demand for the industrial metal following new Chinese financial market restrictions and some weaker U.S. labor market data.

M&A & CAPITAL MARKETS

- Dell announced that it has filed preliminary proxy materials with the Securities and Exchange Commission with the definitive merger agreement between the company and entities owned by Michael Dell, Dell’s Founder, Chairman and Chief Executive Officer, and investment funds affiliated with Silver Lake Partners. Under the terms of the agreement, Dell shareholders would receive \$13.65 in cash for each share of Dell common stock they hold in a transaction valued at approximately \$24.4B.
- Institutional Shareholder Services Inc., an investor advisory firm, recommended against T-Mobile USA Inc.’s merger with MetroPCS Communications Inc. ISS opposed the deal because of unfavorable terms. ISS pointed out that MetroPCS has the potential to thrive and grown as an independent company. ISS said that without the merger, PCS would still have \$1.5 billion of cash to dedicate to new spectrum and could continue operating as a stand-alone company. Paulson&Co., MetroPCS’s largest investor also opposed the deal. But Madison Dearborn Partners LLC, the second-largest owner, supported the merger.
- Amazon.com, Inc. (Nasdaq:AMZN) announced that it has reached an agreement to acquire Goodreads, a leading site for readers and book recommendations. Amazon Vice President Russ Grandinetti said that both Amazon and Goodreads shared a passion for reinventing reading and Goodreads helped how Amazon discover books while Amazon helped Goodreads expand reading around the world. After the acquisition, Goodread’s headquarters will remain in San Francisco, CA. The acquisition is expected to close in the second quarter of 2013.

BRAIN TEASER

You are a contestant on the Monty Hall game show. Three closed doors are shown before you. Behind one of these doors is a car; behind the other two are goats. The contestant does not know where the car is, but Monty Hall does.

The contestant picks a door and Monty opens one of the remaining doors, one he knows doesn’t hide the car. If the contestant has already chosen the correct door, Monty is equally likely to open either of the two remaining doors.

After Monty has shown a goat behind the door that he opens, the contestant is always given the option to switch doors. What is the probability of winning the car if she stays with her first choice? What if she decides to switch?

UPDATES