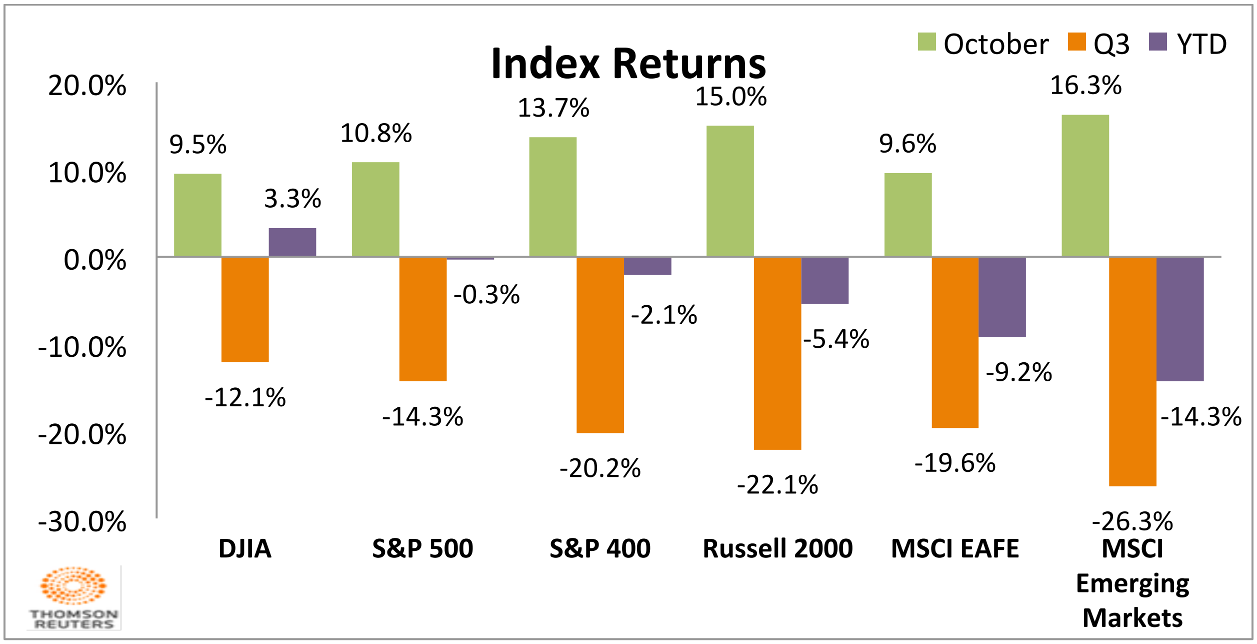
October brought a change of season as well as an improvement in investor sentiment. Following a torrid third quarter performance from global equity markets, investors were in a bargain-buying mood last month, which pulled the markets back in whipsaw-like fashion and pushed bond yields up. The S&P 500 posted its best month since 1987 and the Dow Jones Industrial Average swung back into positive territory for the year. Despite the snapback from the markets, the FineMark investment team still sees several potential issues that could significantly impact client portfolios into year-end.



The US released a better-than-expected GDP report for the third quarter, likely averting a double-dip recession. However, household debt and heightened unemployment will be a continued headwind to economic prosperity. Despite the fragile US economy, corporate profits have been very healthy. Third quarter earnings season can be summarized as showcasing modest profit margins and cautious forward guidance. While earnings growth rates will likely slow, we continue to hold a positive view of domestic equities relative to bonds in light of low interest rates and forecasts for global economic growth.

Globally, economic weakness has been most evident in the euro-zone. Despite the latest efforts by euro-zone policymakers to draw a line under the region's fiscal crisis – which include a "voluntary" 50% haircut for public sector holders of Greek government bonds, recapitalizing banks and leveraging the European Financial Stability Facility (rescue fund), these efforts could prove to be too little too late and prolong the recession within the continent. We continue to watch this development closely. On the other hand, China appears to be navigating a "soft landing" while its economy stabilizes and inflation begins to recede.

Overall, world economies are expected to grow, albeit more slowly in 2012 than in 2011. While the European debt deal is a major step forward, the devil is in the still unknown details. China and Brazil continue to successfully combat inflation and cool their economies. Fiscal challenges in the US will come back into focus as well. The Congressional super committee has until November 23rd to reach an accord on cutting at least $1.2 trillion in expenses. The credit rating agencies will be watching this progression closely as a stalemate could be a catalyst for another US debt rating change. As these details unfold in the weeks ahead, continued market volatility should be expected.