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ECONOMIC AND INVESTMENT FORECAST
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More than halfway through the year, investors are confronted with conflicting economic and market signals: positive returns in equities, real estate, and commodity investments, contrasting with weakening economic indicators and continued policy gridlock here and in Europe. Estimates for global economic growth in 2012 have been declining, most recently being lowered to a 2.6% growth rate for the year. This economic slow-down can be attributed to the European debt crisis, which now claims 10 member countries in recession, and to troubles with Europe's primary trading partner, China.

Three years into the European debt crisis, many were skeptical that the European policy summit in June (the 20th such meeting since the crisis began) would accomplish anything. Nonetheless, European leaders have been re-considering their positions and priorities, with austerity and debt reduction mandates giving way to pro-growth policies. European Union (EU) members have come to realize that the under-capitalized European banking system is a major point of weakness for the EU. Bank deposit outflows from Greece and other southern-tier countries have had a destabilizing effect. In addition, Spain's over-leveraged banks and 25% unemployment rate have Spain next in line for a substantial bailout. EU countries have come to realize that their loose federation is a weakness, and see the benefit of transitioning to a stronger fiscal union and central banking system. Recent European Central Bank (ECB) buying of European government bonds, led by ECB President Mario Draghi, exemplifies the EU commitment to keeping the union intact.

In the U.S., recession has been averted for the time being, and the U.S. stock market has outperformed its international counterparts and delivered healthy gains (only 7 out of 47 stock markets around the world are higher in the past year). U.S. industrial production has rebounded to near the pre-crisis levels of 2007, residential housing markets are showing signs of health, and corporate profits were strong for the second quarter ending June 30th. Despite these positives, the robustness of the economic recovery leaves much to be desired. Unemployment in the U.S. has remained over 8% for 42 months as businesses display a lack of confidence in both Republican and Democratic leadership. Also holding back the U.S. economy has been increased regulation as well as the scepter of the "fiscal cliff": a combination of automatic spending cuts and tax increases (the expiration of the Bush tax cuts) that goes into effect January 1, 2013. However, at a recent gathering in Jackson Hole hosted by Ben Bernanke, the Fed Chairman re-iterated his intent to step in with "QE3" (an acronym for a third round of monetary policy stimulus) if the U.S. economy were to exhibit further weakness in the months ahead.

While Europe and the U.S. are large economies that bear monitoring, China's success transforming from the "workshop of the world" to a consumption led economy will greatly impact future global economic growth. Recently, China's efforts to reduce problematic inflation had the unintended consequences of slowing their economic growth too much. Fortunately, China has the fiscal tools to re-ignite economic growth, in the form of increased bank lending and real estate incentives.

Looking ahead, we expect any advancement of the global recovery to take time. Significant uncertainty around policy, future political leadership, and regulation has inhibited the strength of this recovery. However, any signs of political compromise, or work towards a long-term fiscal plan, can quickly improve market sentiment and re-invigorate businesses of all sizes. With interest rates at historic lows, improved business confidence can quickly translate into corporate investment, new hiring, and ultimately, broad inflationary pressures throughout the economy.