TIAA-CREF Trust Company, FSB

Perspectives on Recent Market Volatility

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Global economic fundamentals have shown signs of weakening in recent weeks, a development which became the dominant focus of financial markets this week with the debt ceiling crisis at least partially resolved for the moment. At the same time, the lack of a comprehensive resolution to the Eurozone's sovereign debt crisis reignited fears about the fiscal outlook for Italy and Spain, two of the continent's largest economies. These cross-currents undermined sentiment and resulted in dramatic declines in their respective financial markets. High Eurozone bond yields, if sustained, coupled with slowing growth in the region could further complicate crisis-resolution efforts. It is unclear whether the Eurozone has enough resources to provide a bailout for Italy and Spain if necessary, and confidence is waning that voters in wealthier core countries, like Germany, will continue to support their poorer peripheral neighbors.

The Eurozone turmoil triggered heightened global market volatility, and primarily benefited U.S. Treasury assets. Yields on some Treasury securities fell to record lows at one point this week amid a groundswell of capital inflows as investors worldwide sought safe haven in the U.S. Treasury market. Demand for the dollar, the world's reserve currency, also surged. This confluence of events underscores the high degree of inter-connectivity that currently exists in the global financial system.

U.S. Economic Outlook

It is our view that it is premature to forecast a double-dip recession or to call for the Federal Reserve to launch another major bond-buying program (otherwise known as Quantitative Easing) to inject additional capital into the economy. In our opinion, growth is likely to remain sluggish for the foreseeable future. The prospective reductions in government spending and public-sector jobs engendered by the recent debt ceiling agreement will weigh on GDP going forward. Further, growth appears to be slowing in the previously booming emerging economies and in developed markets, and that may reduce demand for American exports.

Most importantly, the creation of 154,000 new private-sector jobs in July and the dip in the unemployment rate to 9.1% have relieved some of the immediate concern that the U.S. economy is slumping back into recession. We believe that a lot of work needs to be done to generate the kind of employment gains that would bolster economic growth substantially. Consumer spending, income gains and confidence remain softer than needed to produce a strong, self-sustaining recovery. The oil price spike that reduced consumers' spending power and raised companies' overhead costs earlier this year has eased markedly. This should provide consumers with additional disposable income and has already begun to ease the upward pressure on inflation.

Equities

We continue to emphasize high quality, profitable, companies with strong balance sheets run by capable management teams. In our opinion, such franchises have the wherewithal to both survive and possibly thrive in an environment that may be difficult for lower quality, more speculative issues. Equity markets have been moving *rapidly*, with valuations fluctuating *rapidly*. Clients should remain true to their overall asset allocation within equities, rebalancing periodically – especially if market movements lead them to be overweight in the most volatile sectors of the equity markets.

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Fixed Income

The flight-to-quality dynamic prevalent in the market currently should continue to benefit U.S. Treasuries, which remain the most liquid and safest haven among sovereign issues. As with equities, we continue to emphasize high-quality securities within well-diversified portfolios as a means of helping to mitigate risk. Capital preservation remains paramount in pursuit of long-term consistent total return. We believe that the Federal Reserve will likely hold interest rates in the current accommodative mode at least through mid-2012 against the previously-discussed slow-growth economic backdrop.

Conclusion

The global recovery remains sluggish and some indicators may weaken further; but at this juncture, we do not foresee a double-dip recession in the United States. We continue to anticipate a slow-growth environment with sub-par employment in the near term. Global policymakers have much to accomplish to keep their respective economies on the road to long-term recovery. This process will take time to evolve, and will likely entail more bouts of volatility and market overreaction. As always, when investors keep their focus on the fundamentals and tune out the noise, attractive opportunities can be unearthed by those who remain disciplined and committed to a well-balanced, diversified portfolio.

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