

Economic Review for 2nd Quarter 2009

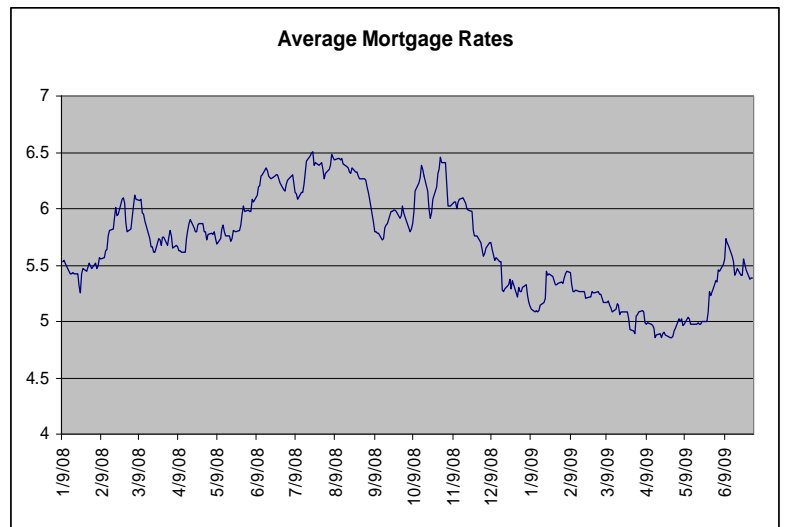
Signs of economic stabilization continue to emerge resulting in a considerable rally in the equity market since lows reached on March 9th. The majority of this rally may have been the result of investors lowering the possibility that the U.S. could enter a depression. Government stimulus is beginning to trickle through the economy and consumer confidence is on the rise. The economic picture has improved from early this year, however, there remains concern about near term prospects. Considerable headwinds remain including rising energy costs, rising interest and mortgage rates, a deleveraging consumer, and the considerable erosion of wealth affecting the baby boomer generation.

In many areas, economic data is improving (or at least reaching a bottom), but some key areas such as housing remain problematic. Home prices continue to decline, as measured by both the Case-Shiller and the FHFA Home Price Indices. Existing home sales increased over the quarter, but higher mortgage rates in June led to a sharp contraction in refinancings.

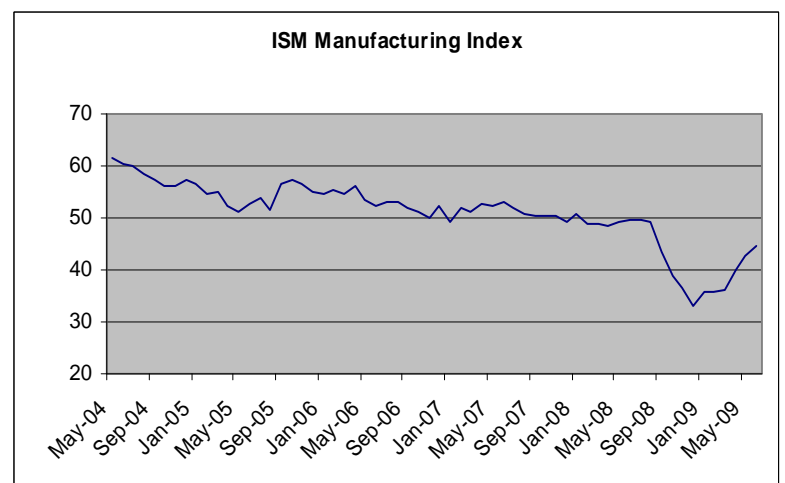
The consumer does appear to be facing improving conditions in other areas outside of housing. Continuing unemployment claims registered their first weekly decline since January 2009. Labor markets remain weak, but there are signs that the downward trajectory is slowing. Personal income was up 1.4% in May after a 0.7% rise in April and consumer confidence jumped from 40.8 in April to 54.9 in May.

Oil and commodity prices, as well as mortgage rates moved higher in the last three months, at the expense of the consumer and the broader economic recovery.

Looking forward, corporate America must increase capital expenditures to see further strong economic growth. Though inventory liquidation in 2008 was equivalent to about 1% of GDP, corporations are slow to increase spending and investment, as they have little clarity in near term prospects. There is a backlog building, but investors await a catalyst to fuel the next leg of growth.



Source: Bloomberg



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Equity Market Review for 2nd Quarter 2009

After reaching their lows on March 9th, equities staged a strong rally that carried through until the end of the second quarter. The S&P 500 advanced over 16% in the second quarter and the Russell 2000 Index (representing small cap stocks) is up over 22%.

The S&P 500 turned in its seventh consecutive quarter of earning declines with first quarter earnings down - 34% year over year. Consumer Discretionary and Energy turned in the biggest declines, with Health Care posting the only positive increase in earnings.

Index Returns	QTR	1 Year	3 Year	5 Year
Russell 1000	16.5%	-26.7%	-8.2%	-1.9%
Russell 1000 Growth	16.3%	-24.5%	-5.5%	-1.8%
Russell 1000 Value	16.7%	-29.0%	-11.1%	-2.1%
Russell Midcap	20.8%	-30.4%	-9.3%	-0.1%
Russell Midcap Growth	20.7%	-30.3%	-7.9%	-0.4%
Russell Midcap Value	20.9%	-30.5%	-11.1%	-0.4%
Russell 2000	20.7%	-25.0%	-9.9%	-1.7%
Russell 2000 Growth	23.4%	-24.9%	-7.8%	-1.3%
Russell 2000 Value	18.0%	-25.2%	-12.1%	-2.3%
Russell 3000	16.8%	-26.6%	-8.4%	-1.8%
S&P 500	15.9%	-26.2%	-8.2%	-2.2%
MSCI EAFE	25.6%	-31.3%	-7.6%	2.8%
MSCI EAFE Growth	21.7%	-33.5%	-7.0%	2.6%
MSCI EAFE Value	29.8%	-28.9%	-8.2%	2.9%
MSCI EAFE Small Cap	34.4%	-28.0%	-9.3%	3.3%
MSCI EM	34.7%	-28.1%	3.0%	14.7%

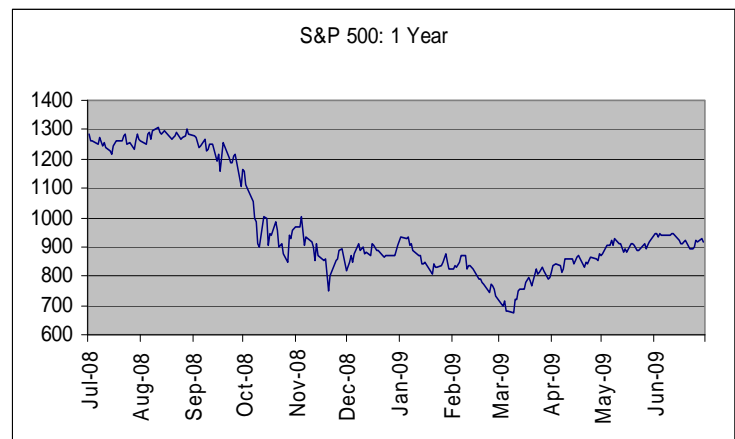
Source: Bloomberg, Russell

Index Returns	QTR	1 Year
Health Care	8.9%	-11.5%
Consumer Discretionary	18.2%	-16.7%
Information Technology	19.7%	-18.3%
Industrials	18.9%	-34.6%
Telecommunication Services	3.4%	-19.3%
Financials	35.7%	-38.6%
Consumer Staples	9.8%	-10.3%
Materials	16.3%	-38.9%
Utilities	10.2%	-28.2%
Energy	10.7%	-41.4%

Source: Bloomberg

- The best-performing sectors were Financials (35.7%), Information Technology (19.7%), and Industrials (18.9%).
- The worst-performing sectors were Telecommunication Services (3.4%), Healthcare (8.9%), and Consumer Staples (9.8%).
- Despite Financials being the best performing sector by a wide margin during the quarter, they remain one of the worst performing sectors year to date.

- Emerging Markets was the best performing index for the quarter overall.
- The S&P had an absolute return of 15.9% during the quarter, but underperformed other indices as noted above.



Source: Bloomberg

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Fixed Income Market Review for 2nd Quarter 2009

Barclays Index Returns	QTR	1 Year	3 Year	5 Year
Aggregate	1.8%	6.1%	6.4%	5.0%
Intermediate Gov/Credit	4.8%	5.1%	6.1%	4.6%
3 Month T-Bill	0.1%	1.0%	3.2%	3.2%
Treasury	-3.0%	6.5%	7.4%	5.5%
Agency	0.1%	7.2%	7.1%	5.4%
Corporates	10.5%	3.8%	4.5%	3.8%
MBS	0.7%	9.0%	7.9%	5.9%
High Yield	23.1%	-2.4%	6.4%	4.3%
U.S. TIPS	0.7%	-1.1%	7.4%	5.5%

Source: Barclays

Interest rates rose during the quarter, led by the long-end of the yield curve. As a result, the Treasury index posted a return of -3.0%, with the 30-year Treasury bond returning -11.4%. Risk premiums declined and all spread sectors out-performed Treasuries. The best-performing sector was high yield at +23.1%, followed by CMBS at +12.5%. Investment grade corporates returned +10.4%.

The markets celebrated as economic data suggested the risk of depression has ended, and the worst of the recession might be past. Risk premiums abated, equity markets rose sharply and credit spreads tightened. Nevertheless, spreads (except for MBS securities) remain at historically wide levels.

Maturity	Month Change	QTD Change	YTD Change
Fed Funds Rate	0.00	0.00	0.00
3 Month Bill	0.05	-0.02	0.10
6 Month Bill	0.06	-0.08	0.08
1 Year Bill	0.04	-0.06	0.14
2 Year Note	0.19	0.31	0.35
3 Year Note	0.22	0.50	0.65
5 Year Note	0.22	0.91	1.01
10 Year Note	0.07	0.87	1.32
30 Year Bond	-0.01	0.80	1.65

Source: Bloomberg

Maturity	12/31/2008	3/31/2009	5/31/2009	6/30/2009
Fed Funds Rate	0.25	0.25	0.25	0.25
3 Month Bill	0.08	0.20	0.13	0.18
6 Month Bill	0.26	0.42	0.28	0.34
1 Year Bill	0.34	0.54	0.44	0.48
2 Year Note	0.76	0.80	0.92	1.11
3 Year Note	0.97	1.12	1.40	1.62
5 Year Note	1.55	1.65	2.34	2.56
10 Year Note	2.21	2.66	3.46	3.53
30 Year Bond	2.68	3.53	4.34	4.33

Source: Bloomberg

While mortgage spreads tightened modestly in the quarter, overall mortgage rates moved modestly higher as Treasury yields rose - this in spite of the Fed's mortgage-backed securities (MBS) purchase program. This poses a bit of a quandary for the Fed, as they would like keep mortgage rates low to fuel a housing recovery, but they are fighting rising Treasury rates partially the result of Treasury borrowing that is funding the government's fiscal stimulus.

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