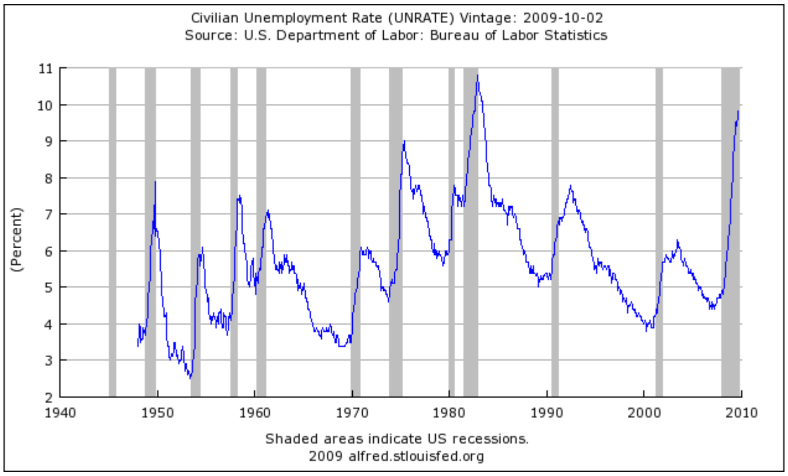
Quarterly Economic Review

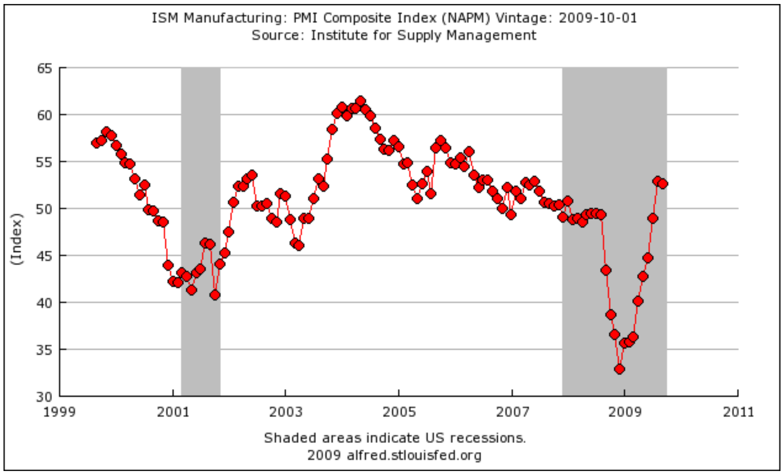
Q3 2009

Economic data continued to strengthen in the third quarter and, based on expectations that GDP figures for the third quarter will be positive, it appears as though the recession might end. Over the last quarter, substantial improvements have been made in industrial production with the ISM index rising to over 50 in August, reflecting gains in orders, supplier deliveries and production. (The ISM is a diffusion index; therefore, readings over 50 indicate economic expansion.) There also have been gains in the housing market; an area deemed critical for economic recovery. Home prices appear to be stabilizing, based on both the Case-Shiller and FHFA Home Price Index.

Over the last month, 69% of all economic releases have been better than expected. There have been pockets of strength in both consumer and producer data. Retail sales rebounded strongly in August up 2.6%, the biggest jump since January 2006, with the "Cash for Clunkers" program providing significant lift for the autos sector. The consumer confidence number rose 6.7 points in August to 54.1. On the production side, after a prolonged drawdown, inventories are on track to be a positive contributor to GDP growth in the third quarter. As well, the Philadelphia Fed General Activity Index rose to 4.2, a positive reading for the first time in nearly a year. The new orders and shipment indices also posted positive readings.



Areas of concern remain, particularly employment and lending conditions. Unemployment continued to rise and is now at 9.7%, the highest level since June 1983. The number now exceeds the peaks of the prior cycle, with less-educated workers among the hardest hit. The Federal Reserve's Senior Loan Officer Survey remains weak as U.S. Banks continued to tighten lending standards on households and businesses during the last three months.



It is difficult to draw comparisons between this recovery and prior ones because in this case interest rates are near 0% and the recession was driven by an overleveraged consumer. Typically, the economy relies on a rebound in consumer spending to throttle its way out of recession, but it remains to be seen how long it will take the U.S. consumer to regain his footing.

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Equity Market Review

Since the low on March 9th, equity markets are up significantly, with small- and mid-caps leading the way. Lower quality, deeper value stocks outperformed their higher quality brethren.

For the quarter, stocks in all market segments continued to rally with value stocks outperforming growth and international stocks outperforming domestic markets.

Analysts are raising earnings estimates for the S&P 500 at the fastest pace since 2004. 41% of third quarter earnings estimates were revised upward in August, versus 14% in July.

Index Returns	QTR	1 Year	3 Year	5 Year
Russell 1000	16.1%	-6.1%	-5.1%	1.5%
Russell 1000 Growth	14.0%	-1.9%	-2.5%	1.9%
Russell 1000 Value	18.2%	-10.6%	-7.9%	0.9%
Russell Midcap	20.6%	-3.6%	-4.1%	3.9%
Russell Midcap Growth	17.6%	-0.4%	-3.1%	3.8%
Russell Midcap Value	23.6%	-7.1%	-5.7%	3.5%
Russell 2000	19.3%	-9.6%	-4.6%	2.4%
Russell 2000 Growth	16.0%	-6.3%	-2.6%	2.9%
Russell 2000 Value	22.7%	-12.6%	-6.7%	1.8%
Russell 3000	16.3%	-6.4%	-5.1%	1.6%
S&P 500	15.6%	-6.9%	-5.4%	1.0%
MSCI EAFE	19.6%	3.5%	-3.2%	6.6%
MSCI EAFE Growth	16.9%	-0.5%	-2.8%	6.2%
MSCI EAFE Value	22.2%	7.5%	-6.4%	6.9%
MSCI EAFE Small Cap	22.2%	15.7%	-3.2%	7.8%
MSCI EM	20.9%	19.1%	7.9%	17.3%

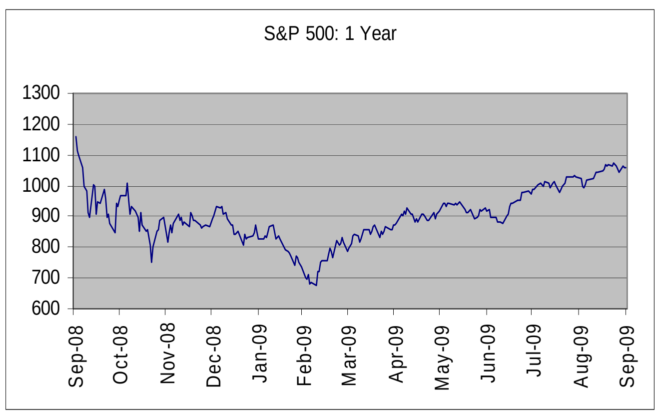
Source: Bloomberg, Russell

S&P 500 Index Returns	QTR	1 Year
Healthcare	8.9%	-5.9%
Consumer Discretionary	18.9%	-2.2%
Information Technology	16.7%	7.2%
Industrials	21.2%	-15.7%
Telecommunication Services	3.9%	-5.8%
Financials	25.1%	-25.7%
Consumer Staples	10.5%	-7.8%
Materials	21.0%	-6.9%
Utilities	5.0%	-11.4%
Energy	9.5%	-16.4%

Source: Bloomberg

- Russell MidCap Value was the best-performing index for the quarter overall.
- The S&P had an absolute return of 15.6% during the quarter, but underperformed most other indices as noted above.

- The best-performing sectors were Financials (25.1%), Industrials (21.2%), and Materials (21.0%).
- The worst-performing sectors were Telecommunication Services (3.9%), Utilities (5.0%), and Healthcare (8.9%).
- Despite Financials being the best-performing sector by a wide margin during the quarter, it remains the worst-performing sector over the last year.



Source: Bloomberg

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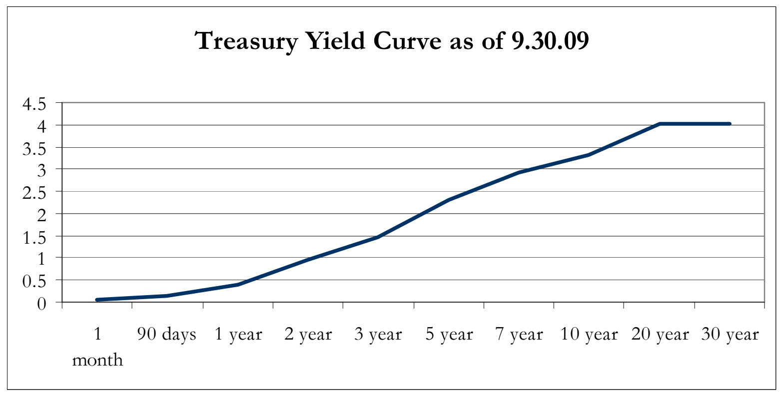
Fixed Income Market Review

Lehman Index Returns	QTR	1 Year	3 Year	5 Year
Aggregate	3.7%	10.6%	6.4%	5.2%
Intermediate Gov/Credit	3.3%	10.0%	6.2%	4.7%
3 Month T-Bill	0.2%	1.1%	2.1%	2.3%
Treasury	2.1%	6.3%	6.9%	5.2%
Agency	2.0%	8.2%	6.7%	2.4%
Corporates	8.1%	21.8%	5.9%	4.6%
MBS	2.3%	9.8%	7.4%	5.9%
High Yield	14.2%	22.3%	5.3%	6.1%
U.S. TIPS	3.1%	5.7%	5.7%	4.7%

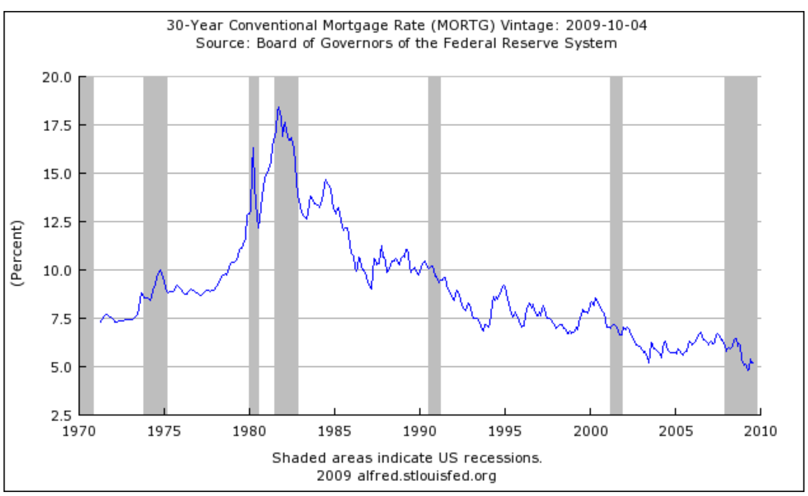
Source: Barclays

Interest rates fell across the yield curve during the quarter, led by the long end of the curve. As a result, the Treasury index posted a return of 2.1%, with the Barclays Treasury 20+ Year Index up 5.3% for the quarter. Risk premiums continued to contract, with corporates posting an 8.1% return and High Yield up over 14%.

Economic reports were stronger than expected throughout most of the quarter, and most economists believe the recession ended in the third quarter. Risk premiums continued to shrink, particularly within the industrial sector and high yield markets. Industrial yields spreads have fallen to near normal conditions, though there is still room for spreads to narrow within Financials.



Source: U.S. Treasury



Source: Federal Reserve

Mortgage rates fell during the third quarter, with rates on a 30-year fixed mortgage falling nearly 25bps to 5.13%. On September 23rd, the Federal Reserve announced it will gradually slow the pace of agency MBS and agency debt purchases. The Federal Reserve will purchase $1.25 trillion of agency mortgage-backed securities with expectations that they will finish these purchases by the end of the first quarter 2010.