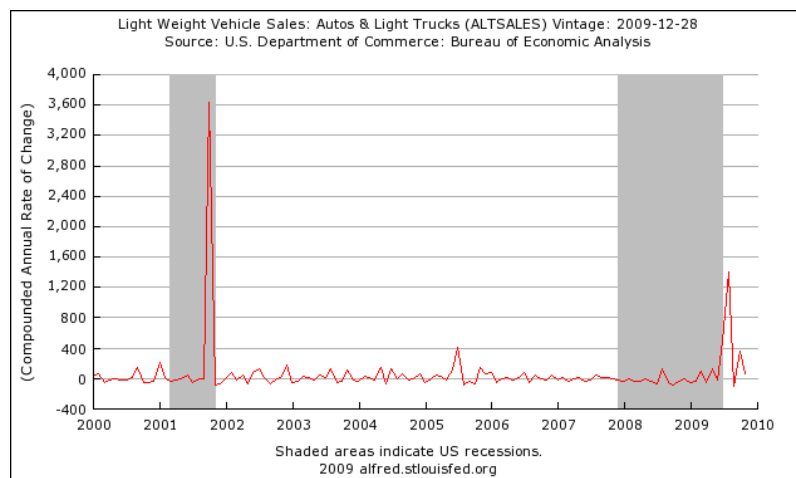
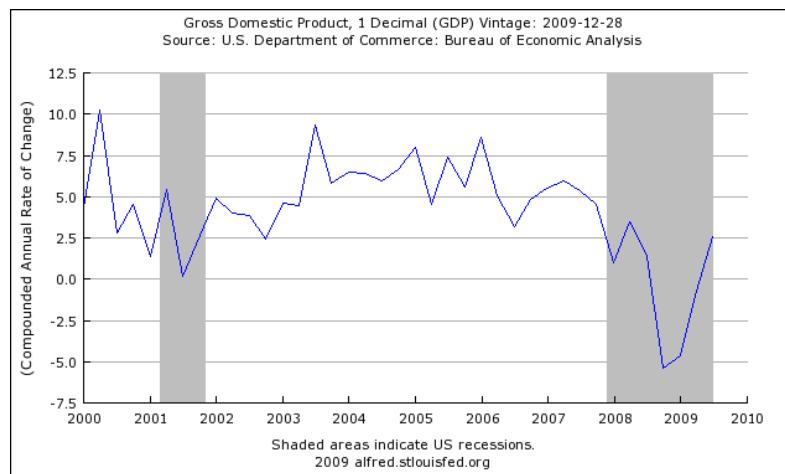


Driven by stronger personal consumption, exports, and private and government investment, third quarter GDP registered a 2.2% gain (on its third release), indicating the official end to the recession that had gripped the U.S. since December 2007. While positive growth is encouraging, cause for concern remains. Foremost, the GDP number has been revised considerably downward from the initial 3.5% report in October. As well, a large portion of growth can be tied to government stimulus, not exogenous growth. Fueled by the “Cash-For-Clunkers” program, motor vehicle output added 1.45% to GDP. Real federal government consumption expenditures and growth investment were up 8% in the third quarter, following an 11%+ increase in the second quarter. The effects of the government stimulus package are expected to wane early in the second quarter 2010 and questions surround the viability of the recovery without further intervention.

Commodity prices continue to march upward, as do emerging markets growth, with China leading the way posting an 8.9% GDP growth for the third quarter. Merger and acquisition activity is accelerating, which indicates both an undervaluation of assets and the willingness to invest in future growth opportunities on the part of U.S. corporations.

Concerns remain, particularly in the areas of unemployment and housing, and data in these areas is mixed. Down from its highs, the unemployment rate rests at 10.0% and data continues to improve, with nonfarm jobs lost coming in at 11,000 in November (the lowest monthly number since the recession began). On the housing front, existing home sales were up 7.4% in November, the highest rate since February 2007. However, new home sales in November collapsed, down 11.3% year/year.

Industrial production remains a critical variable, as it directly reflects the willingness of companies to increase output in response to demand. Inventory drawdowns fueled industrial production in the third and early fourth quarter, but recent evidence shows inventory levels virtually unchanged. The Federal Reserve’s regional manufacturing indices are showing slowing industrial growth, as highlighted by the flat Empire Index and declining Richmond Index.



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Equity markets continued posting positive returns in the quarter, with large caps barely edging out mid caps and growth outperforming value. Investors have seen higher quality, larger-market capitalization stocks take leadership, which is a change from the third quarter.

Earnings were stronger across all market capitalization segments, with large caps leading the way. 86% of large cap stocks beat earnings estimates, versus 78% of mid caps and 75% of small caps. Consumer Staples and Technology posted the biggest positive surprises.

Index Returns	QTR	1 Year	3 Year	5 Year
Russell 1000	6.1%	28.5%	-5.3%	0.8%
Russell 1000 Growth	7.9%	37.2%	-1.9%	1.6%
Russell 1000 Value	4.2%	19.7%	-8.9%	-0.2%
Russell Midcap	5.9%	40.4%	-4.6%	2.5%
Russell Midcap Growth	6.7%	46.3%	-3.2%	2.5%
Russell Midcap Value	5.2%	34.2%	-6.6%	2.2%
Russell 2000	3.9%	27.2%	-6.1%	0.5%
Russell 2000 Growth	4.1%	34.5%	-4.0%	0.9%
Russell 2000 Value	3.6%	20.6%	-8.2%	0.0%
Russell 3000	5.9%	28.4%	-5.4%	0.8%
S&P 500	6.0%	26.5%	-5.6%	0.4%
MSCI EAFE	2.3%	32.1%	-5.6%	4.0%
MSCI EAFE Growth	4.2%	29.8%	-4.4%	4.1%
MSCI EAFE Value	0.4%	34.5%	-6.9%	3.9%
MSCI EAFE Small Cap	-0.9%	47.2%	-7.1%	4.2%
MSCI EM	8.6%	78.5%	5.1%	15.5%

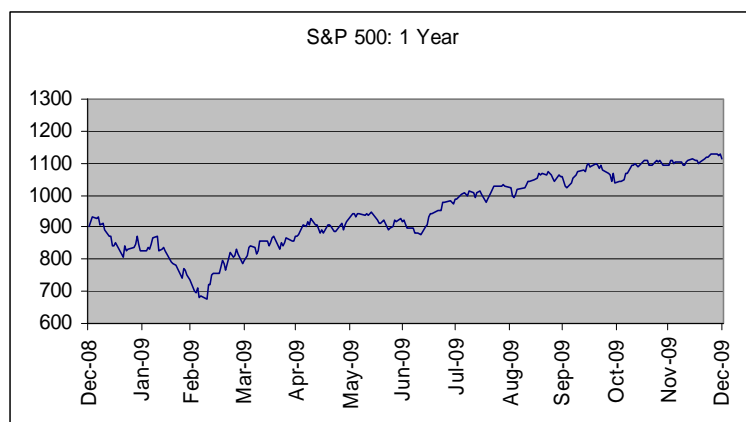
Source: Bloomberg, Russell

Index Returns	QTR	1 Year
Health Care	8.5%	17.1%
Consumer Discretionary	8.6%	38.8%
Information Technology	10.5%	59.9%
Industrials	4.8%	17.3%
Telecommunication Services	5.9%	2.6%
Financials	-3.7%	14.8%
Consumer Staples	4.2%	11.2%
Materials	6.9%	45.2%
Utilities	6.1%	6.8%
Energy	5.0%	11.3%

Source: Bloomberg

- The best-performing sectors were Information Technology (10.5%), Consumer Discretionary (8.6%), and Health Care (8.5%).
- The worst-performing sectors were Financials (-3.7%), Consumer Staples (4.2%), and Industrials (4.8%).
- Returns in all sectors are now in positive territory for the year, with financials the only sector showing negative returns over the quarter.

- Emerging Markets was the best-performing index for the quarter overall and was up nearly 79% for the year.
- The S&P 500 had an absolute return of 6.0% during the quarter.



Source: Bloomberg

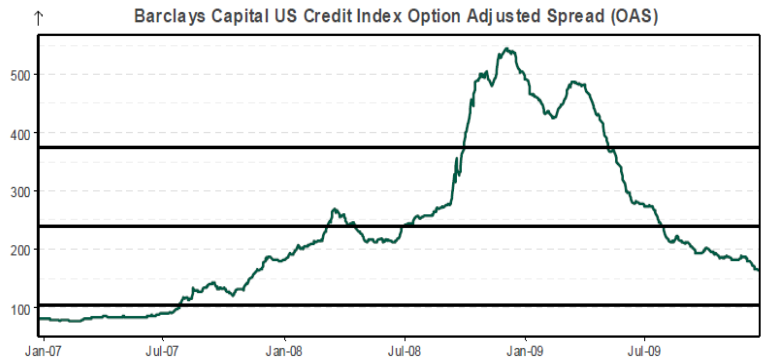
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Barclays Index Returns	QTR	1 Year	3 Year	5 Year
Aggregate	0.2%	5.9%	6.0%	5.1%
Intermediate Gov/Credit	0.3%	5.2%	5.9%	4.7%
Treasury	-1.3%	-3.6%	6.1%	4.9%
Agency	-0.3%	2.0%	6.3%	5.2%
Corporates	1.4%	18.7%	5.7%	4.7%
MBS	0.6%	5.9%	7.0%	5.8%
High Yield	6.2%	58.2%	6.0%	6.5%
U.S. TIPS	1.8%	11.4%	6.7%	4.6%

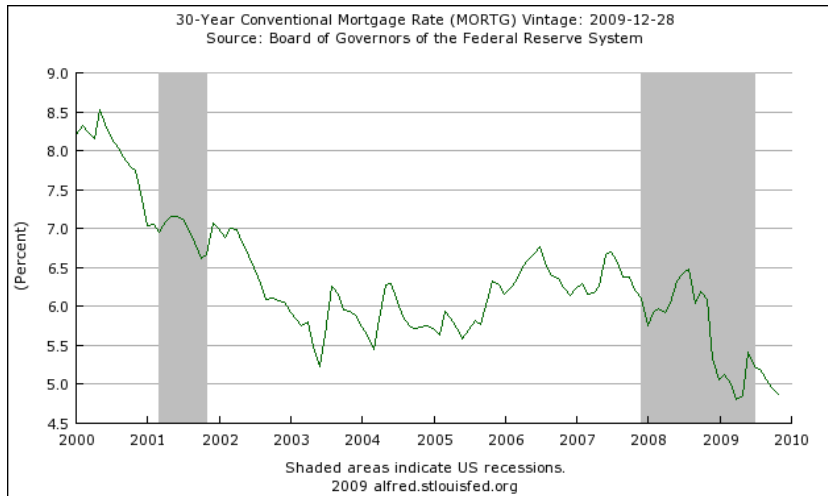
Most fixed income sectors posted positive returns for the quarter, with High Yield leading the way, up 6.2%. Fed Funds futures are currently pricing in small increases in April or May 2010.

Source: Barclays

Corporate bond spreads over Treasuries continue to decline, particularly in Industrials, which have fallen to approximately 94bps off of highs near 370bps in November 2008. Financials remain slightly elevated but are down to 180bps off of highs that topped 775bps in July 2008. High yield spreads have fallen to 672bps, in line with their 10-year average.



Source: Barclays



Source: Federal Reserve

30-year fixed mortgage rates ended the year just above 5%. Low mortgage rates have prompted a significant increase in mortgage applications. The MBA Refinance Index was up over 11% in the last week of November, marking its fifth increase in six weeks and moving it to its highest level in two months. Continued efforts by the Federal Reserve to keep mortgage rates low, as well as an extension of the first-time home buyer credit (to April 30, 2010), are intended to stabilize and rejuvenate the housing market.

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