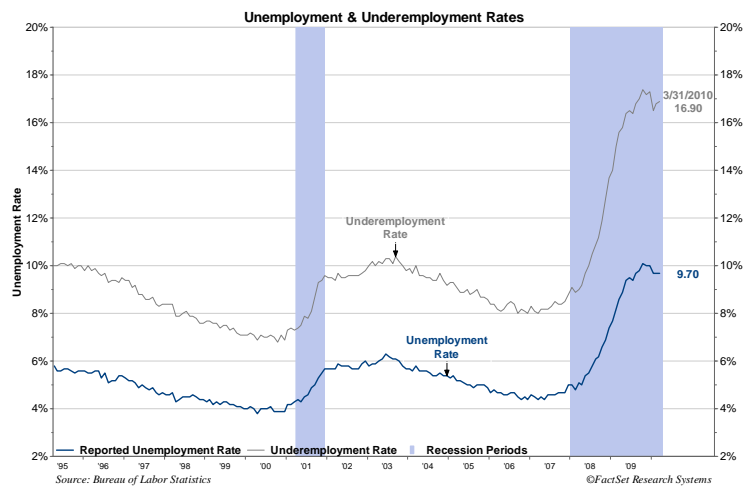
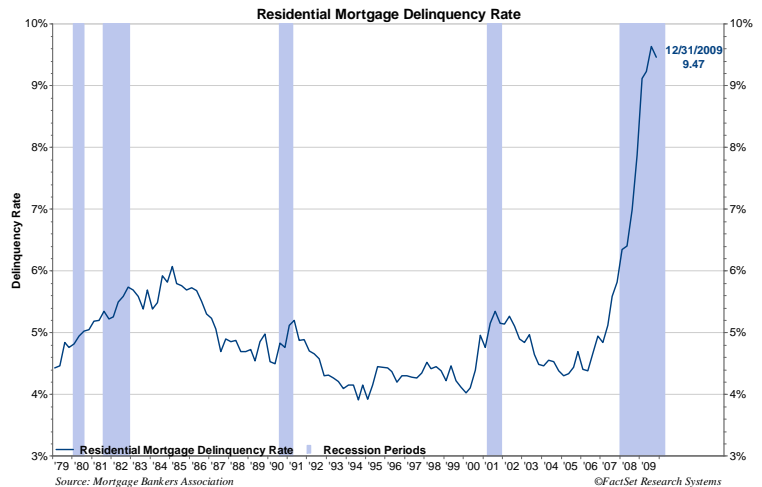


The domestic economy appears to be moving from recovery to slow expansion. After falling by nearly 6% from peak output in 2007 to the trough in mid-2009, we believe the economy will grow at 3% in the current year. While a 3% growth rate implies domestic GDP will nearly regain its former peak by the end of 2010, this is significantly slower growth than typical after a recession. Normally, after a sharp economic falloff, the economy recovers quickly as excess inventories are worked off, consumer demand stabilizes, the housing sector reacts to lower interest rates, and production resumes to replenish inventories. Given those tailwinds, real GDP growth of 5%-6% is not unusual in a normal recovery. Unfortunately in the current market environment, several characteristics of the current economy don't bode well for such a sharp rebound.

First, the onset of the recession started in the housing sector which has yet to completely heal. The U.S. enjoyed an extraordinary run-up in home prices through the middle of the past decade and this rapid price appreciation diverted an inordinate amount of capital and labor to a sector that became glutted with oversupply. When housing price appreciation reversed course and the recession hit, delinquencies, defaults and foreclosures rose to record highs.

Secondly, the "Great Recession" has taken a heavy toll on the American workforce. Roughly eight million workers lost their jobs since the end of 2007, and the unemployment rate has nearly doubled to just under 10% currently. While the most recent employment statistics are pointed in the right direction – weekly jobless claims trending lower, large layoff announcements diminishing and payroll numbers ticking higher – it may take years before we see the unemployment rate down in the mid-single digits.

Lastly, the fiscal situation of the federal government (as well as the state and local governments) is in need of serious attention. The federal government's reaction to the financial crisis and recession was an increase in federal spending that is now approaching 25% of GDP. Historically, this number has been closer to 20%.



The above notwithstanding, economic growth is likely to strengthen in the next few months as the lagging effects of massive monetary and fiscal stimulus continue to work through the economy. Consumer and housing stimulus, alongside the increase in corporate profitability and stronger industrial production, have the ability to provide tailwinds to future growth.

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Equity markets posted another strong quarter, led by small cap stocks. Financial distress in Greece weighed on international markets and emerging markets struggled as China made steps to reign in liquidity.

Trailing one-year equity returns are quite impressive, with almost every major index up over 50% in the last 12 months.

Equity Returns

As of 3/31/2010

Index Returns	1Q10	Trailing 1 Year	Annualized Trailing 3 Year	Annualized Trailing 5 Year
Russell 1000	5.7%	51.6%	-4.0%	2.3%
Russell 1000 Growth	4.7%	49.8%	-0.8%	3.4%
Russell 1000 Value	6.8%	53.6%	-7.4%	1.0%
Russell Midcap	8.7%	67.7%	-3.3%	4.2%
Russell Midcap Growth	7.7%	63.0%	-2.0%	4.3%
Russell Midcap Value	9.6%	72.4%	-5.3%	3.7%
Russell 2000	8.8%	62.7%	-4.0%	3.3%
Russell 2000 Growth	7.6%	60.2%	-2.5%	3.8%
Russell 2000 Value	10.0%	65.0%	-5.7%	2.7%
Russell 3000	6.0%	52.4%	-4.0%	2.4%
S&P 500	5.4%	49.8%	-4.1%	1.9%
MSCI EAFE	1.0%	55.2%	-6.5%	4.3%
MSCI EAFE Growth	2.1%	51.3%	-5.2%	4.7%
MSCI EAFE Value	-0.1%	59.2%	-7.8%	3.9%
MSCI EAFE Small Cap	4.9%	70.8%	-7.8%	4.3%
MSCI EM	2.4%	81.3%	5.3%	15.7%

Source: Bloomberg, Factset

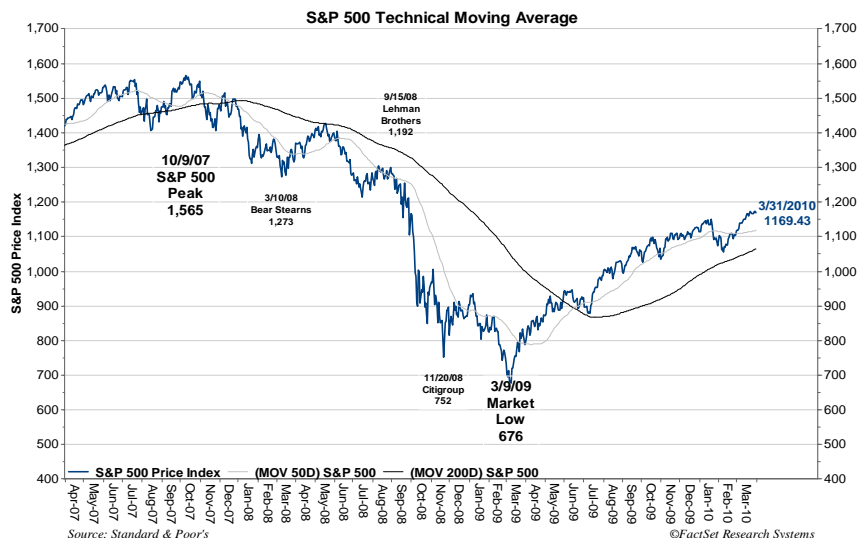
S&P 500: GICS

Absolute Returns	1st Quarter	One Year
Consumer Discretionary	10.4%	69.9%
Consumer Staples	5.8%	35.9%
Energy	0.6%	29.5%
Financials	11.1%	83.1%
Health Care	3.4%	34.5%
Industrials	13.1%	72.8%
Information Technology	1.9%	58.0%
Materials	2.9%	56.1%
Telecommunications	-4.3%	12.2%
Utilities	-3.5%	21.0%
S&P 500	5.4%	49.8%

Source: Factset

- Small caps were the strongest performing major equity asset class, just edging out mid caps for the lead in the first quarter.
- Value outperformed growth in large, mid, and small cap indices.

- The best-performing sectors were Industrials (13.1%), Financials (11.1%), and Consumer Discretionary (10.4%).
- Only two sectors posted negative returns for the quarter, Telecom (-4.3%) and Utilities (-3.5%).



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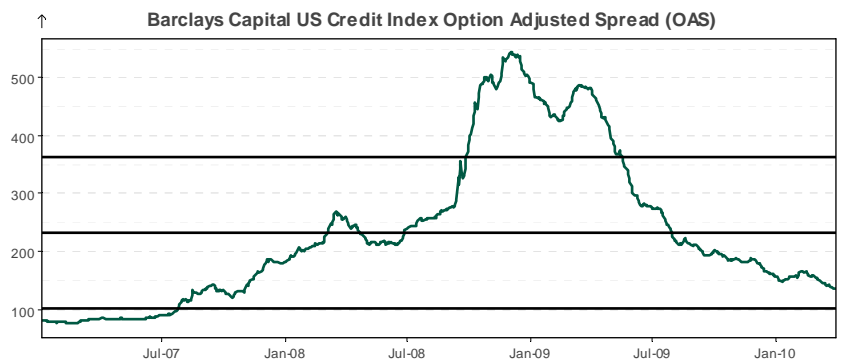
Fixed Income Returns As of 3/31/2010

Barclays Index Return Holding Period Return	1Q10	Trailing 1 Year	Annualized Trailing 3 Year	Annualized Trailing 5 Year
Aggregate	1.78%	7.69%	6.14%	5.44%
Intermediate Gov/Credit	1.54%	6.92%	5.88%	5.16%
Treasury	1.12%	-1.18%	6.02%	5.17%
Agency	1.19%	3.31%	6.18%	5.44%
Corporates	2.30%	23.80%	5.95%	5.30%
MBS	1.54%	5.21%	7.03%	6.13%
ABS	2.22%	18.53%	3.89%	4.09%
CMBS	8.95%	41.64%	3.63%	4.05%
High Yield	4.62%	56.18%	6.65%	7.78%
U.S. TIPS	0.57%	6.18%	6.01%	4.82%

Source: Barclays

All fixed income sectors posted positive returns in the first quarter, with CMBS leading the way (+8.95%). High Yield and CMBS remain the strongest sectors over the last 12 months.

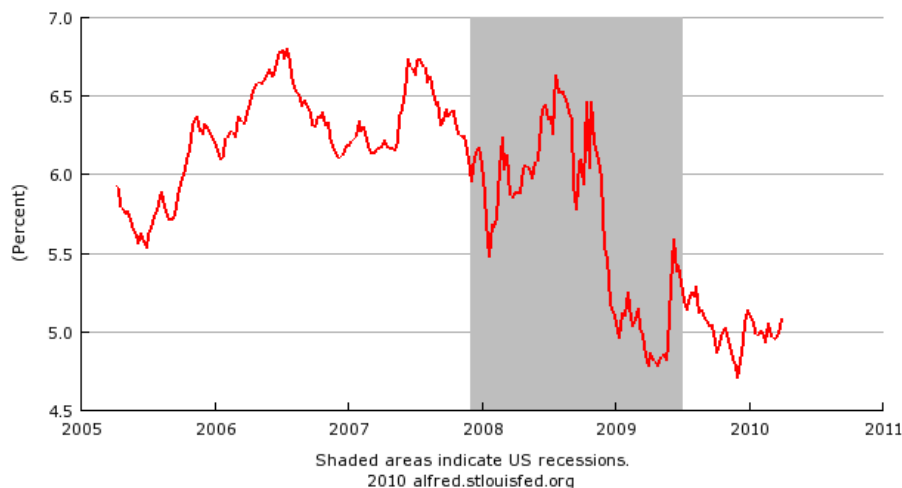
Corporate bond spreads over Treasuries are down slightly for the quarter. Financials, which are down slightly to 164bps (from 180bps in the fourth quarter); and Utilities, which are around 148bps, from highs around 640bps last January.



Key	Axis	Name	Last	Minimum	Maximum	Mean	SD	SD Change
—	Left	U.S. Credit - OAS	136.408	75.522	545.041	233.188	131.002	3.817

Source: Barclays

30-Year Conventional Mortgage Rate (WRMORTG) Vintage: 2010-04-05
Source: Board of Governors of the Federal Reserve System



Source: St. Louis Federal Reserve

The Agency mortgage backed securities (MBS) sector enjoyed positive excess return relative to its Treasury counterparts during the quarter. The Federal Reserve completed its \$1.25 trillion in purchase of this sector in their effort to bolster the primary mortgage market. As the Fed ended its purchases at quarter end, combined with the modest rise in Treasury rates, mortgages experienced some slight widening in spreads.

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