



February 2010 Market Commentary

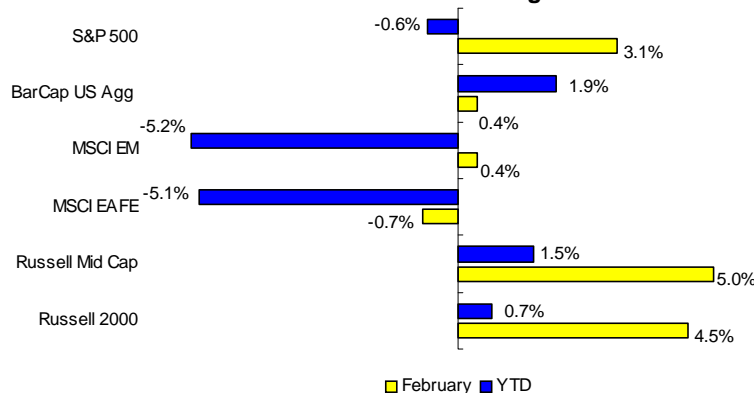
U.S. and overseas equity markets ended mostly higher despite lingering worries about the fate of a handful of overly indebted countries in the Eurozone.

For the month, the S&P 500 Index and the Russell 2000 Index of smaller companies advanced 3% and 5%, respectively. Materials, industrials and consumer discretionary were among the top performing sectors, while healthcare, telecommunications services and utilities underperformed. No investment style emerged as a favorite as growth fared best among large-caps, but trailed among small- and mid-caps. Meanwhile, small- and mid-cap stocks generally outperformed larger caps.

U.S. fixed income markets posted positive returns. Investment grade corporate securities posted strong results. Lower quality, higher yielding corporate securities also posted solid gains. U.S. Treasuries gained as the yield curve steepened. Other sectors, including mortgage-backed securities (MBS), asset-backed securities (ABS) and municipal bonds also advanced during the month.

International markets posted mixed results, with the MSCI EAFE ending down 1%. Among the largest European markets, France and Germany each declined 2%. Within the Pacific region, Australia and Hong Kong advanced 3% and 4%, respectively. Meanwhile, Japan rose 1% as GDP showed expansion in the final quarter of 2009. In the emerging markets, the MSCI EM ended unchanged as strength from select Latin American and Emerging Asian countries was offset by weakness from select EMEA countries.

Broad Market Index Returns Ending 02/28/10



World Market Recap

Economy

- The fourth quarter GDP second estimate was revised upwards to 5.9% from the 5.7% "advance" estimate. The increase primarily reflected an acceleration in private inventory investment, an upturn in nonresidential fixed investment, a deceleration in imports, and an acceleration in exports that were partly offset by decelerations in personal consumption expenditures and in federal government spending.



- At the most recent FOMC meeting in January, the Federal Reserve held rates at the 0% to 0.25% range, citing subdued inflation expectations. The Federal Reserve did not meet in February but raised the discount rate it charges banks for emergency loans from 0.50% to 0.75%, reiterating that the move does not signal an imminent shift to tighter monetary policy. The next FOMC meeting is scheduled for March 16th.
- According to the U.S. Bureau of Labor Statistics, the February unemployment rate held at 9.7%. Job losses in February were concentrated in construction, schools, transportation, insurance and publishing. Manufacturing job hiring rose for the second increase in a row.
- On the political front, President Obama and congressional leaders held a nationally televised forum on healthcare reform. Mr. Obama offered a concession on one GOP priority—limits on malpractice suits. However, he conditioned his approval on Republicans agreeing on a broader package to reduce health costs. The session yielded no new agreement and the top two Democrats on Capitol Hill said they would press forward on health overhaul legislation with or without bipartisan support.

U.S. Equity

- The consumer discretionary sector was the top performing sector for the month. Shoppers shrugged off the snow and worries about the economy to buy full-price spring clothing and other items at the nation's malls, resulting in the strongest retail sales gain since November 2007, a month before the recession started.
- The industrials sector advanced as manufacturing activity expanded. The Institute for Supply Management's index of manufacturing activity moved to its best reading in more than five years. Within the sector, shares of Caterpillar rose, partly on strong equipment sales in Asia.
- Uncertainty over reform legislation, and disappointing earnings and guidance from Pfizer negatively impacted sector results within healthcare.
- Automakers posted a better-than-expected sales increase in February. Sales rose 13% over last February as all major automakers, with the exception of Toyota, reported higher U.S. sales. Among major U.S. automakers, Ford's sales increased 43% and the company outsold GM for the first time since 1998.

Fixed Income

- U.S. Treasuries gained as the yield curve steepened, with yields falling in the intermediate part of the curve and rising at the long end.
- The mortgage-backed securities (MBS) sector also ended February higher despite the Fed's commitment to wind down its purchase of MBS in the coming months.
- Investment grade corporate securities delivered positive results during the month but spreads to U.S. Treasuries widened slightly.
- Lower quality, higher yielding corporate securities posted solid gains. However, reversing a trend from previous months, lower quality issues trailed higher quality issues.
- Other fixed income sectors including municipal bonds, asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) all ended higher for the month.

International Developed Markets

- Canada advanced 6%. The Bank of Canada left its benchmark interest rate at a record low of 0.25% and reiterated its conditional commitment to hold the current policy rate until the end of the second quarter of 2010.
- The United Kingdom declined 1% as the Bank of England left rates unchanged at a historic low of 0.5%. The British pound fell sharply against most currencies as worries about the outcome of the U.K. general election and the ability of the government to remedy the high fiscal deficit has put the currency under heavy selling pressure.
- The ECB left rates unchanged at a record low of 1% as the central bank remains in a holding pattern as questions surrounding a Eurozone recovery loom. With Greece in major breach of Eurozone rules on deficit management, this reflects poorly on the credibility of the Euro currency and could potentially hurt the rest of Europe. There are also fears of contagion as investors speculate that other indebted European nations such as Portugal, Spain, Italy and Ireland could be the next shoe to drop.
- Within the Pacific region, Australia and Hong Kong advanced 3% and 4%, respectively. Meanwhile, Japan and Singapore each rose 1%, while New Zealand declined 2%. In Japan, Toyota Motor made headline news as the auto manufacturer recalled millions of vehicles over safety concerns and faced congressional hearings in the U.S.

International Emerging Markets

- In Emerging Asia, China gained 2% despite tightening measures by the central bank. Meanwhile, weakness in information technology shares sent South Korea and Taiwan down 1% and 4%, respectively.
- Within Latin America, Brazil rallied 5% on strength in commodity-related stocks. Mexico advanced 4% on solid showings from banks and select consumer stocks. Meanwhile, the small market of Chile declined 1% as investors reacted to the devastating 8.8 magnitude earthquake that struck the country.
- Among the EMEA countries, South Africa ended unchanged. In the Middle East, Turkey plunged 12%, while Egypt advanced 2%. Within Eastern Europe, Poland, Hungary and Russia each declined 5%.

*All indices are unmanaged and investors can not actually invest directly into an index. Past performance is not indicative of future results.

The S&P 500 Index is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's.

The Dow Jones Industrial Average is based on the average performance of the 30 blue-chip stocks monitored.

Russell 2000 Index measures the performance of the small-cap stocks.

The NASDAQ Composite measures all domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market.

MSCI EAFE is a market-cap weighted index representing 20 of the developed markets outside North America. These 20 countries include 14 European countries and 6 Pacific countries.

MSCI Emerging Markets is a market-cap weighted index representing 26 of the emerging countries in the world.