



## January 2010 Market Commentary

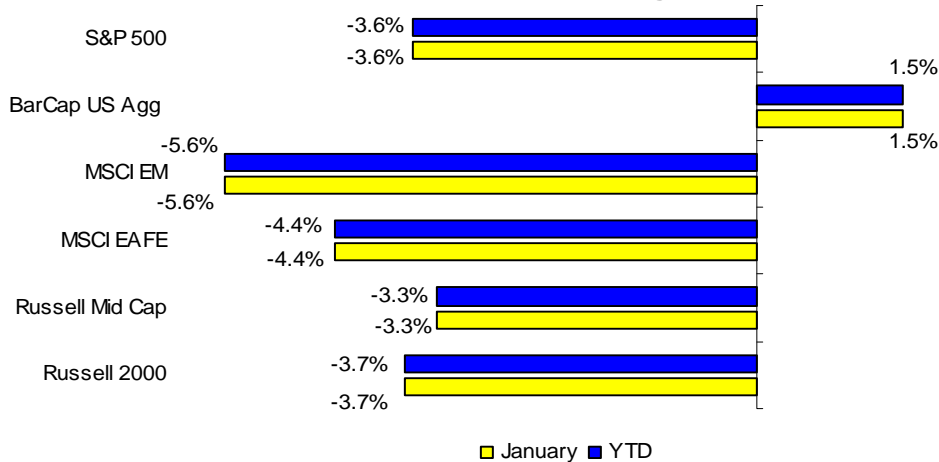
The U.S. and overseas equity markets rally came to an abrupt halt in January as stubbornly high unemployment and escalating fears of sovereign debt problems led investors to dump riskier assets.

For the month, the S&P 500 Index and the Russell 2000 Index of smaller companies each declined nearly 4%. Financials, industrials and healthcare were among the top performing sectors, while materials, telecommunications services and information technology underperformed. Across all market capitalizations, value stocks outperformed their growth counterparts. Meanwhile, large- and mid-cap companies performed similarly to smaller companies.

U.S. fixed income markets posted positive returns. Investment grade corporate securities posted strong results. U.S. Treasuries ended solidly higher after losing nearly 4% in 2009. Lower quality, higher yielding corporate securities also posted solid gains. Other sectors, including municipal bonds and asset-backed securities (ABS) also advanced during the month.

International markets moved mostly lower, with the MSCI EAFE ending down 4%. Among the largest European markets, France and Germany declined 7% and 9%, respectively. Within the Pacific region, results were mixed. Australia and Hong Kong each declined 7%, while New Zealand and Singapore each fell 6%. Meanwhile, Japan advanced 2%. In the emerging markets, the MSCI EM lost 6% on weakness from select Latin American, Emerging Asian and EMEA countries.

### Broad Market Index Returns Ending 01/31/10



## World Market Recap

### Economy

- Fourth quarter GDP advanced 5.7% according to preliminary estimates. The advance primarily reflected positive contributions from private inventory investment, exports, and personal consumption expenditures. Imports, which are a subtraction in the calculation of GDP, increased.
- The Federal Reserve kept its target for interest rates at a range of 0% to 0.25%. The Fed also held to its previously stated language that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period, suggesting no near-term change in rates.



- On the political front, Republican Scott Brown was elected to fill the Senate seat that was long held by Ted Kennedy in the overwhelmingly Democratic state of Massachusetts amid a growing sense of unease among independent voters. Democrats will no longer control the 60 votes in the Senate needed to overcome filibusters.

### **U.S. Equity**

- The healthcare sector was the top performing area after Scott Brown's surprise victory in the Massachusetts special election for U.S. Senate appeared to have stalled Democratic efforts to overhaul the nation's healthcare system in its current proposed legislative form.
- Financials fared relatively well despite a proposed regulation from the White House known as the "Volcker Rule" which would impose restrictions on the size and scope of banks and other financial institutions to rein in excessive risk taking and to protect taxpayers.
- The information technology sector came under pressure led by IBM which declined following a fourth quarter earnings report that beat Wall Street's expectations but left concerns about the company's revenue growth and valuation.
- The materials sector came under pressure as a stronger U.S. dollar sent gold and other precious metals and commodities sharply lower. Mining-related stocks performed particularly poorly.

### **Fixed Income**

- U.S. Treasuries ended solidly higher in January after losing nearly 4% in 2009 as yields fell amid a pullback from investors from riskier assets.
- The mortgage-backed securities (MBS) sector also ended the month higher despite the Fed's commitment to wind down its extraordinary program of purchasing \$1.25 trillion in MBS by the end of the first quarter of 2010.
- Investment grade corporate securities continued to move higher after an impressive 2009.
- Lower quality, higher yielding corporate securities posted solid gains. Lower quality issues continued to outperform, although to a much lesser degree than in previous months.
- Other fixed income sectors including municipals, commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) all ended higher for the month.

### **International Developed Markets**

- Canada declined 7%. The Bank of Canada left its benchmark interest rate at a record low of 0.25% and repeated a pledge to leave it unchanged through June as a strong currency and weak U.S. demand slow an economic recovery.
- The United Kingdom declined 5% as the Bank of England left rates unchanged at a historic low of 0.5%, and voted to continue with its asset purchase program. After a substantial fall in output, the U.K. economy recorded sluggish growth in the final quarter of 2009.
- The ECB left rates unchanged at a record low of 1% as the central bank remains in a holding pattern given uneven growth and low inflation. Meanwhile, questions surrounding a Eurozone recovery loom, with the state of Greece's public finances a particular concern.



- Within the Pacific region, results were mixed. Australia and Hong Kong each declined 7%, while New Zealand and Singapore each fell 6%. Meanwhile, Japan advanced 2% amid seemingly negative news in the transport sector. Japan Airlines filed for bankruptcy and Toyota announced the company was recalling millions of vehicles due to faulty gas pedals.

### International Emerging Markets

- In Emerging Asia, China plunged nearly 9% as the government's decision to rein in bank lending triggered a sell-off. Weakness in information technology shares sent South Korea and Taiwan down 4% and 7%, respectively.
- Within Latin America, Brazil declined 11% as commodity-related stocks fell sharply. Mexico and Peru fell 6% and 10%, respectively. Meanwhile, the small markets of Colombia and Chile gained 2% and 3%, respectively.
- Among the EMEA countries, South Africa declined 5%. In the Middle East, Turkey rose 2%, while Egypt advanced 7%. Within Eastern Europe, Russia and the Czech Republic each advanced 2%, while Poland declined 1%.

\*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.

*Note: The information contained in this correspondence was taken from sources which we deem reliable. We do not represent that it is accurate nor complete and it should not be relied upon as such. Any opinions expressed herein reflect our judgment at this date and are subject to change.*