

January 2011 Market Commentary

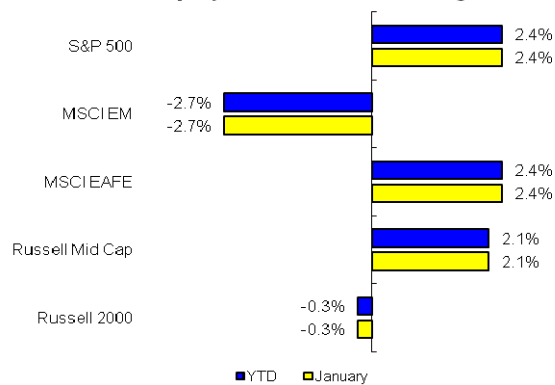
Developed markets ended January mostly higher, supported by strong earnings reports and a further improvement in U.S. economic data. Meanwhile, investors in emerging markets stocks were unsettled by a series of uprisings in North Africa and the Middle East.

For the month, the Russell 2000 Index of smaller companies ended unchanged, while the S&P 500 Index advanced 2%. Energy, industrials and information technology were among the top performing sectors, while consumer staples, consumer discretionary and telecommunications services underperformed. Across market capitalizations, large- and mid-cap companies generally outperformed smaller companies. No investment style emerged as a favorite as growth fared best among large-caps, but trailed among small- and mid-caps.

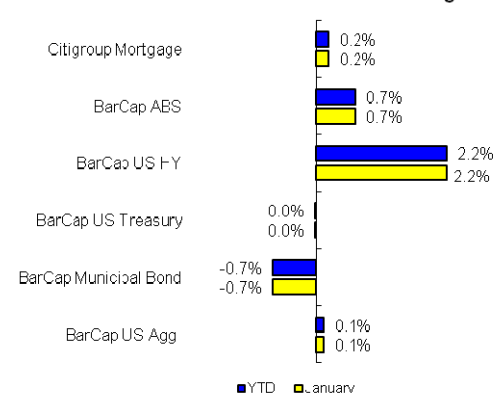
U.S. fixed income markets posted mildly positive results as the yield curve steepened. Lower quality, higher yielding corporate securities were among the strongest performers with lower-rated issues outperforming. Investment grade corporate securities also posted slight gains for the month. Other sectors, including mortgage-backed securities (MBS), commercial mortgage-backed securities and asset-backed securities (ABS), also advanced. Meanwhile, U.S. Treasuries ended mostly flat.

International markets posted mostly positive results, with the MSCI EAFE advancing 2%. Among the largest European markets, France and Germany rose 7% and 4%, respectively. Within the Pacific region, Singapore and Japan each ended unchanged. Meanwhile, Australia ended down 2%, while New Zealand gained 1%. In the emerging markets, the MSCI EM declined 3% on weakness from select Emerging Asian, Latin American and EMEA (Eastern Europe, Middle East and Africa) countries.

Broad Equity Index Returns Ending 01/31/11



Broad Fixed Income Index Returns Ending 01/31/11



World Market Recap

Economy

- Fourth quarter GDP rose 3.2% according to the advance estimate. The increase primarily reflected positive contributions from personal consumption expenditures (PCE), nonresidential fixed investment and exports that were partly offset by a negative contribution from private inventory investment.
- The Federal Reserve continues to keep rates on hold at the 0% to 0.25% range. The FOMC maintained its existing policy of reinvesting principal payments from its securities holdings and intends to purchase \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011. The next FOMC meeting is scheduled for March 15th, 2011.

U.S. Equity

- The industrials sector was an area of significant strength during January, with diversified industrials companies leading the way. Aerospace & defense and construction & materials stocks also moved sharply higher.
- The energy sector was also strong amid solid earnings reports, an up-tick in merger-and-acquisition activity, rising oil prices and improving margins at refineries.
- The information technology sector was another top performing area for the month as a host of companies reported earnings that beat analyst estimates and pointed to a rebound in corporate spending.
- Financial services stocks were led by some of the country's largest banks as a reduction in reserves for loan losses continued to bolster profits. Regional banks, which are more dependent on real estate, did not fare as well.
- The more defensive telecommunications services sector mostly disappointed. Both fixed line and mobile names performed particularly poorly during the month.

Fixed Income

- The yield curve steepened during January as the difference between the 2- and 30-year Treasury yields jumped to an all-time record of 401 basis points on January 31 from 374 basis points at year end. For the month, U.S. Treasuries ended mostly flat.
- Lower quality, higher yielding corporate securities were among the strongest performers with lower-rated issues outperforming. BB-rated issues rose 1.8%, while CCC-rated issues gained 2.9%.
- Investment grade corporate securities also posted slight gains for the month. Performing particularly well were financial-related issuers. Industrial bonds also ended slightly positive, while utility-backed issuers generally moved lower.
- Asset-backed securities (ABS) benefited from strong investor demand that easily absorbed new auto receivable deals during January. Mortgage-backed securities (MBS) and commercial mortgage-backed securities (CMBS) also advanced during the month.
- Municipal bonds continued to underperform as investor concerns about the creditworthiness of muni issuers persisted.

International Developed Markets

- Canada rose 1%. The Bank of Canada (BOC) left interest rates on hold at 1% for the third consecutive BOC meeting. The BOC said the cumulative effects of the persistent strength in the Canadian dollar and poor relative productivity performance are restraining a recovery in net exports and contributing to a widening of Canada's current account deficit to a 20-year high.
- The United Kingdom gained 2% as the Bank of England (BOE) kept interest rates on hold at 0.5% as inflation concerns were overshadowed by debt tensions and the fear that government spending cuts could crimp economic growth. The BOE faces the challenge of balancing the economic recovery and inflation, which has remained above its goal for the past several months and is expected to climb further.

- The European Central Bank (ECB) continued to leave interest rates unchanged at a record low of 1%. The central bank remains in a holding pattern as the sovereign debt crisis lingers. Among the largest European markets, Spain, Italy, France and Germany rallied 14%, 11%, 7% and 4%, respectively.
- In the Pacific region, Japan and Singapore each ended unchanged. Meanwhile, Australia ended down 2%, while New Zealand gained 1%. In Japan, a downgrade of the country's sovereign debt rating limited gains in equity markets. Meanwhile, Australia's market moved lower as investors weighed the economic impact of the devastating floods that have ravaged the country.

International Emerging Markets

- In Asia, China declined 1% as financial services stocks moved lower. India plunged 13% as the central bank continued to tighten monetary policy as inflation remains a concern. Among the other large Asian markets, South Korea and Taiwan each rose 3% on strength in semiconductor and consumer electronics stocks.
- Within Latin America, Brazil declined 4% as the central bank raised its key interest rate to 11.25% in a bid to cool inflation in one of the world's fastest growing economies. The rise, from 10.75%, is the first under President Dilma Rousseff, who has vowed to get Brazil's spending boom under control. Elsewhere in the region, Mexico fell 3%.
- Among EMEA countries, South Africa ended down 12% for the month of January. In the Middle East, Egypt plunged 21%. Within Eastern Europe, Russia, the Czech Republic and Hungary advanced 4%, 9% and 12%, respectively, as investors shifted their attention away from Europe's sovereign debt woes.

*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.

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

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.

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