

May 2009 Market Commentary

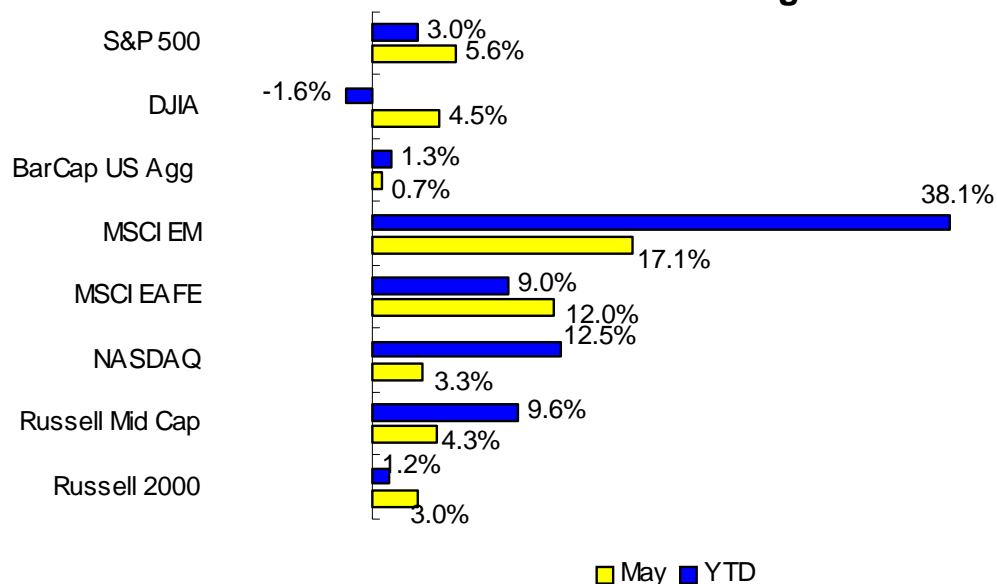
U.S. and overseas equity markets rallied sharply in May on hopes that the global economic environment was stabilizing. Commodities also moved higher, with oil rallying nearly 30% for the month of May.

For the month, the S&P 500 advanced 6%, while the Dow Jones Industrial Average rose 5%. Meanwhile, the technology-heavy NASDAQ Composite and the Russell 2000 Index each advanced 3%. Financials, energy and healthcare were among the top performing sectors, while consumer discretionary, telecommunications services and information technology underperformed. Across market capitalizations, large- and mid-cap companies generally outperformed smaller companies. No investment style emerged as a favorite as value fared best among large-caps, but trailed among small- and mid-caps.

U.S. fixed income markets posted mostly positive results, with riskier assets performing particularly well. Lower quality, higher yielding corporate securities posted solid gains lifted by automaker issues. Investment grade corporate securities also posted gains with the lower the quality, the higher the return. The mortgage-backed securities (MBS) sector ended nearly flat. Treasuries came under pressure as yields continue to move higher as supply expands and the economic slowdown eases.

International markets moved higher, with the MSCI EAFE ending up 12%. Among the largest European markets, France and Germany advanced 13% and 10%, respectively. Within the Pacific region, Hong Kong rose 18%, while Singapore soared 25%. Meanwhile, Japan rose 10% as the Bank of Japan raised its outlook on the economy for the first time in nearly three years. In the emerging markets, the MSCI EM rose 17% on strength from select Emerging Asian, Latin American and EMEA countries.

Broad Market Index Returns Ending 05/31/09



World Market Recap

Economy

- First quarter preliminary GDP was revised to 5.7% from 6.1% for the first quarter of 2009. The decrease in real GDP in the first quarter primarily reflected negative contributions from exports, equipment & software, private inventory investment and residential fixed investment that were partly offset by a positive contribution from personal consumption expenditures.
- The number of newly laid-off Americans filing jobless claims fell more than expected in recent weeks and retail sales grew in May for the first time in three months. Still, the number of people claiming benefits rose to the highest level on record.
- Consumer confidence, which had improved considerably in April, posted another large gain in May, mirroring the strength in the stock market.

U.S. Equity

- The financial sector posted solid gains as the Federal Reserve's stress test on banks produced results that were not as bad as many feared. Following the announcement of the results, many of the banks which needed to raise capital did so in the public market.
- The healthcare sector rallied after an analyst released a favorable note on Pfizer, indicating that the shares were undervalued in light of the impending Wyeth merger. They also praised the merger plan and speculated that Pfizer might soon raise its dividend.
- Gains were strong within the energy sector as commodities staged the biggest monthly rally since 1974. Oil traded above \$66/barrel and gasoline prices jumped over 30% in May. Commodities of all types from cotton to zinc strengthened during the month.
- In the consumer discretionary space, results were weak despite improving consumer confidence numbers amid recent evidence the recession may be reaching a bottom.

Fixed Income

- While the mortgage-backed securities (MBS) sector continued to outperform Treasuries, it lost much of its momentum in recent weeks.
- Treasuries came under pressure as yields continued to move mostly higher as supply expands and the economic slowdown eases. While the yield on the 2-year note was unchanged, yields increased 30 basis points or more on maturities of 5 years or longer.
- Lower quality, higher yielding corporate securities posted solid gains lifted by automaker issues. Bonds of GMAC, GM's financing arm, rallied 15% during the month.
- Investment grade corporate securities also posted gains with the lower the quality, the higher the return. BBB credits continued to be the best performers in May, with a return of 4.4% versus 2.6% for the AA credits.

Currency Markets

- Of the major currencies, the British pound, Swiss franc, Japanese yen and Euro rose sharply against the U.S. dollar. In the emerging markets, the U.S. dollar fell particularly sharply against the currencies of commodity-exporting countries. The Brazilian real rose more than 10% against the U.S. dollar. The South African rand gained 5% against the U.S. dollar in May and 15% for the year-to-date period.

International Developed Markets

- Canada gained 21% as housing sales had the largest month-to-month increase in activity in more than five years, reinforcing recent signs that the housing market is thawing. While encouraging, the report noted that both sales activity and prices remain at levels lower than a year ago.
- The United Kingdom rose 14% as the Bank of England left interest rates unchanged at 0.5%. On the economic front, the jobless tally leaped far more than had been forecasted. The total now stands at 2.2 million, or 7.1%, a level not seen since 1996.
- The European Central Bank cut interest rates by 25 basis points to 1%, the lowest level yet, and announced plans to purchase billions of dollars in securities. ECB President Jean-Claude Trichet left the door open for future rate cuts.
- In the Pacific region, Japan rose 10% as the Bank of Japan raised its outlook on the economy for the first time in nearly three years. Hong Kong gained 18% on strength in financial stocks, while Singapore soared 25% amid improving economic data.

International Emerging Markets

- In Emerging Asia, China gained 17% on expectations that government spending through stimulus would help stabilize growth. India soared 37% on the heels of the victory of the Congress Party, which ran on a platform of instituting long awaited economic reforms. South Korea was the laggard within the region, rising 4%. Concerns about the growing security threat from North Korea escalated after launching their most powerful nuclear test yet.
- Within Latin America, Mexico gained 17% despite a heavy blow to the country's travel & tourism industry due to the swine flu outbreak. Tourism has been badly hurt as foreigners cancelled planned trips, several countries suspended flights, and cruise companies halted stops in Mexican ports. Brazil's stock market rallied 22% on strength in commodity stocks.
- Among the EMEA countries, Russia rallied 32% on rising oil prices which sent shares of energy giant Gazprom sharply higher. South Africa gained 16% as most metals stocks rallied, particularly gold and platinum miners.



*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.

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