

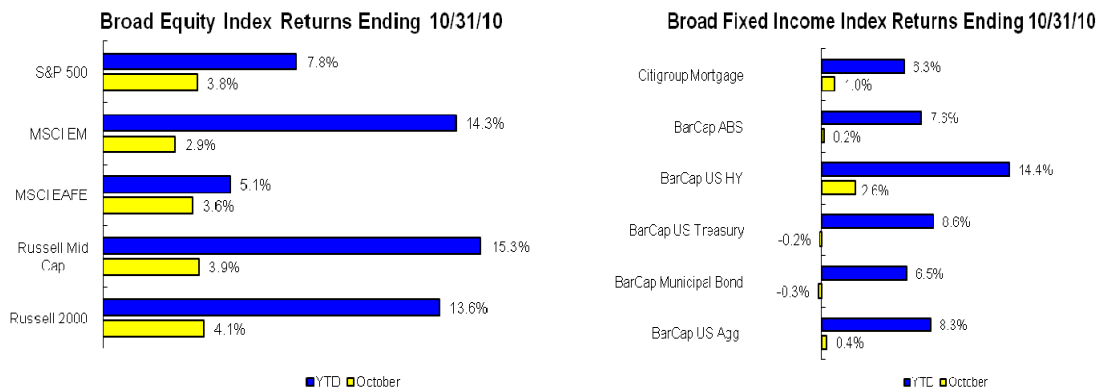
## October 2010 Market Commentary

U.S. and overseas equity markets ended mostly higher in October as expectations of further quantitative easing by several of the world's major central banks enticed investors.

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

U.S. fixed income markets posted mixed results. Lower quality, higher yielding corporate securities were among the top performers amid strong demand and a steady decline in default rates. Investment grade corporate securities also posted slight gains as new issuance remained robust. Other sectors, including mortgage-backed securities (MBS) and asset-backed securities (ABS), also posted small gains. U.S. Treasuries underperformed and registered their first monthly loss since March of this year.

International markets posted mostly positive results, with the MSCI EAFE advancing 4%. Among the largest European markets, France and Germany rose 5% and 8%, respectively. Within the Pacific region, Hong Kong and Japan each gained 2%, while Australia and Singapore each rose 3%. Meanwhile, New Zealand rallied 7%. In the emerging markets, the MSCI EM advanced 3% on strength from select Emerging Asian, Latin American and EMEA (Eastern Europe, Middle East and Africa) countries.



## World Market Recap

### Economy

- Third quarter GDP advanced 2% according to preliminary estimates. The increase primarily reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, nonresidential fixed investment, federal government spending, and exports that were partly offset by a negative contribution from residential fixed investment.
- The Federal Reserve continues to keep interest rates on hold at the 0% to 0.25% range. At the most recent FOMC meeting the Fed announced plans to buy \$600 billion in U.S. Treasury securities to stimulate the economy at a pace of about \$75 billion per month through the end of the second quarter of 2011. The next FOMC meeting is scheduled for December 14th, 2010.

- On the political front, the U.S. midterm elections concluded largely as expected, with the Republicans retaking control of the U.S. House of Representatives and gaining a number of seats in the Senate.

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

- The materials sector was an area of significant strength during October, with paper/forestry companies leading the way. Aluminum, coal and platinum/precious metals stocks also moved sharply higher.
- The consumer discretionary sector was also strong despite consumer sentiment falling to the lowest level in nearly a year. Consumer spending typically accounts for about two-thirds of U.S. economic activity and is considered critical to an economic recovery.
- The information technology sector rallied as the most recent quarter's corporate earnings generally tended to exceed expectations.
- Financial services stocks underperformed as growing concerns about the "robo-signing" foreclosure scandal weighed on the sector. Officials in all 50 states have unveiled a joint investigation into the mortgage providers and their conduct during foreclosure proceedings.
- After leading for most of 2010, the telecommunications sector was among the biggest laggards during October.

### **Fixed Income**

- The yield curve steepened as short rates fell further and long rates rose. For the month of October, U.S. Treasuries declined 0.2%.
- Municipal bonds also posted small losses, declining 0.3%. Uncertainty over the potential for rising federal tax rates for upper income taxpayers still loom for tax-exempt buyers.
- Lower quality, higher yielding corporate securities were among the top performers amid strong demand and a steady decline in default rates. BB-rated issues advanced 2.3%, while CCC-rated issues rose 3.3%.
- Investment grade corporate securities generally managed to post small gains. BBB-rated issues advanced 0.6%, while AA-rated issues declined slightly by 0.2%.
- Other sectors, including commercial mortgage-backed securities (CMBS), mortgage-backed securities (MBS) and asset-backed securities (ABS), also advanced during the month of October.

### **International Developed Markets**

- Canada rose 3%. The Bank of Canada (BOC) left interest rates on hold at 1% as the central bank changed its economic outlook. The BOC said the combination of difficult labor markets and ongoing deleveraging in many advanced economies is expected to moderate the pace of growth relative to prior expectations.
- The United Kingdom advanced 4% as the Bank of England left rates unchanged at 0.5%. The British government announced the deepest cuts in public expenditures since World War II in a plan to cut the country's deficit. Under the plan, thousands of government jobs would be eliminated, welfare benefits would be cut and the retirement age raised.

- The European Central Bank (ECB) continued to leave interest rates unchanged at a record low of 1% as the central bank remains in a holding pattern as sovereign debt concerns threaten to derail a recovery in the Eurozone. Among the largest European markets, France, Spain and Germany gained 5%, 5% and 8%, respectively.
- In the Pacific region, Japan gained 2%, while Australia and Singapore each rose 3%. Asian currencies moved sharply higher against the U.S. dollar. The Australian dollar hit parity with the U.S. dollar for the first time since 1983. In Singapore, officials widened the trading band for the Singapore dollar, helping push the currency to a record high against the U.S. dollar.

### International Emerging Markets

- In Asia, China advanced 4% despite the surprise interest rate increase announcement. China's central bank announced it would raise key rates by a quarter percentage point, the first rate hike in nearly three years. South Korea advanced 2% on strength in automobile companies. Among the other large Asian markets, India advanced 2% and Taiwan rose 3%.
- Within Latin America, Brazil rose 2%. On the political front, Brazilians celebrated the election of the country's first female president, Dilma Rousseff. She was the hand-chosen candidate of popular President Lula da Silva, and has promised to continue his policies. Elsewhere in the region, Mexico rallied 8%.
- Among EMEA countries South Africa ended up 2%. In the Middle East, Turkey gained 6%. Within Eastern Europe, Russia, Hungary and Poland each advanced 5% as banks continued to be the primary beneficiaries of increased confidence in the region.

\*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.

*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.*