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MONTHLY MARKET UPDATE
August 2009

Commentary—Strength in Numbers

By Meridith McCarthy, Senior Research Analyst

We believe the recession appears to show some signs of concession, as evidenced in various economic indicators, as well as market returns. During July, investors appeared willing to venture back into the global and domestic markets, with an increased appetite for risk and higher demand for return, continuing the restoration of confidence within the public markets. The month boasted strong results across fixed income and equity markets on the back of upbeat earnings reports and a rise in The Conference Board Leading Economic Index™ for the third consecutive month. However, July also saw consumer confidence fall more than expected, as job market woes persisted and inflation recorded its steepest gain since November 2007.

Upbeat corporate earnings reports and business outlooks appeared to breath life back into stocks in July, after a relatively flat to slightly negative month for June. The markets and investors precariously awaited the kickoff of earnings season—beginning with the Financials sector in July—in an attempt to gauge the pulse of financial institutions and, thus, acquire a more intimate perspective on the condition of the capital markets. Goldman Sachs, Wall Street's largest surviving investment bank, began the season by smashing analysts' forecasts, with results led by strong gains in trading and its equity underwriting business, as well as improving market conditions. Additionally, Goldman Sachs reported that it has maintained a more conservative risk portfolio in order to navigate through the challenging market environments of the past 12 months. Overall, investors looked to stronger reported earnings as a positive signal to the direction of the economy. Indices followed the upward trend, reaching levels last seen nine months ago. As a casualty, the gains in stocks and corporate fixed income depleted the demand for government debt, as investors seemed to increase their credit risk appetite and venture into lower credit-rated issues, as evidenced by a narrowing of the spreads in July.

The strength of the numbers reported in July for The Conference Board Leading Economic Index for June also may have contributed to investor confidence. For June, the index marked a third consecutive monthly increase, up 0.7%, topping Wall Street's forecast of 0.4%. Seven of the 10 indicators rose in June, including building permits, stock prices, manufacturers' new orders for consumer goods and reports on jobs. New home sales climbed 11% in June, the biggest gain in eight years, as U.S. manufacturing shrank less than forecasted in July and construction spending unexpectedly rose, perhaps indicating signs of economic resuscitation. Furthermore, the TED spread, the difference between the London interbank offered rate for three-month U.S. dollar loans and yields on the three-month U.S. Treasury bill, narrowed and fell to lows last seen in March 2007, a potential positive signal to investors that volatility has declined as the stock markets rise and risk appetites continue to revitalize. The news on gross domestic product (GDP) was also positive for the second quarter, indicating that the economy sank at a pace of just 1.0%, compared to the 6.4% free fall reported in the first quarter of this year, which may indicate further stabilization.

Consistent with the trend in June, consumer behavior and confidence reports injected a degree of pessimism into the economy in early July, reminding investors that the recession persists, despite positive returns in the capital markets. As sentiment remained hampered by a difficult job market, U.S. consumer confidence wilted in July, as reported by The Conference Board, which recorded its second consecutive decline. The Conference Board's index of consumer attitudes, the Present Situation Index and the Expectations Index all deteriorated to lows last seen in March and April. The culprits associated with the erosion across the indices include consumers' rising concerns about a protracted economic downturn, job security and the depletion of wealth.

The Producer Price Index, which measures prices received by farms, factories and refineries, recorded its steepest gain since November 2007. Boosted by cars and trucks, core prices—which strip out volatile food and energy costs—rose 0.5%, greater than analysts' forecasts of a 0.1% increase. The main contributor to inflation in July was energy prices, which reportedly rose 6.6% in June, as gasoline costs surged 18.5%, the largest climb since November 2007. Typically, the combination of a sluggish economy plus inflationary pressures would equal a dangerous stagflation mix; however, some economists are less concerned due to the slack in the economy, as unemployment remains elevated. Various economists have also predicted a reversal in the trend of companies purging inventory to accommodate weaker demand due to economic conditions, which would lift economic growth in the second half of 2009. Surprisingly, retail sales rebounded in July, attributable mostly to auto and gasoline sales. Unemployment figures showed a decline in total jobless benefit rolls in July, reaching the lowest level since April. In addition, there was a significant increase in new jobless claims, which was distorted by an unusual pattern of layoffs in the automotive industry.

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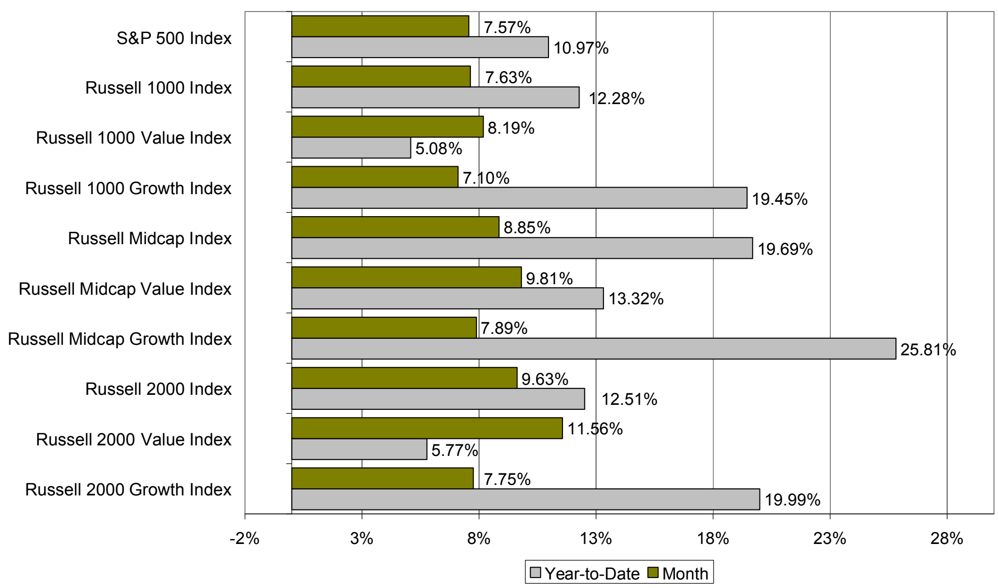
Strength in reported corporate earnings numbers combined with improving investor sentiment and confidence levels appeared to further restore stability in the marketplace, as well as bolster the economy's recovery. While our country continues to battle the recession and weather a depressed job market, it appears that we have made progress in stabilizing the markets and further reviving our economy. Signals now indicate that the longest recession since World War II may finally be showing signs of easing.

Domestic Market Review

Domestic Equity

In July, the major segments of the U.S. equity market had positive returns, with the Russell 2000 Value Index posting the strongest return of 11.6%. Overall, small- and mid-cap stocks outperformed their large-cap counterparts in July. For the month of July, contrary to June results, value-biased stocks posted stronger returns, as compared to growth-oriented stocks, across all market capitalizations. The S&P 500 Index and the Russell 1000 Growth Index experienced positive results, yet lagged their value and smaller market capitalization counterparts, with returns of 7.6% and 7.1%, respectively.

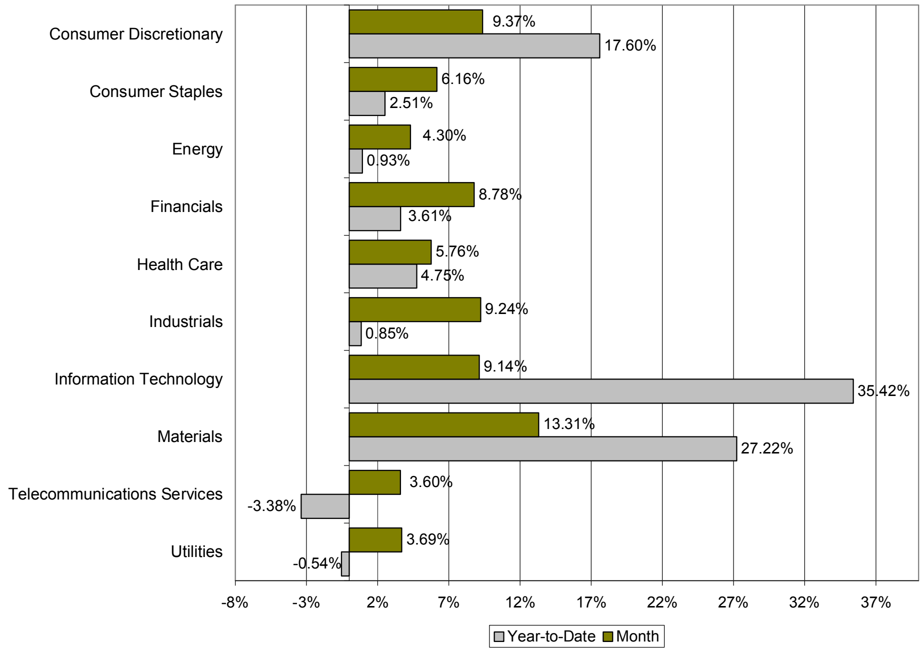
U.S. Equity Returns—July 2009*



Source of data: Bloomberg
* Indices are not available for direct investment. Past performance is not a guarantee of future results.

In July, U.S. equity sectors posted positive returns. The Materials sector had a return of 13.3%, making it the best performer within the S&P 500 Index. The Consumer Discretionary sector followed with a return of 9.4%. The Information Technology sector posted a return of 9.1% for the month, and became the best-performing sector on a year-to-date basis, with a return of 35.4%. As a whole, the major U.S. economic sectors within the S&P 500 Index posted strong performance results in July, reflecting potential renewed optimism in consumerism and an increased desire for raw materials, both domestically and on a global basis.

U.S. Equity Sector Returns—July 2009*



Source of data: Standard & Poor's
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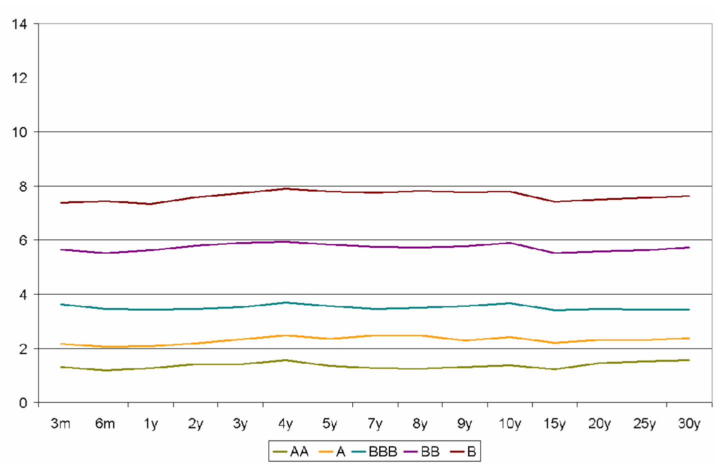
Domestic Fixed Income

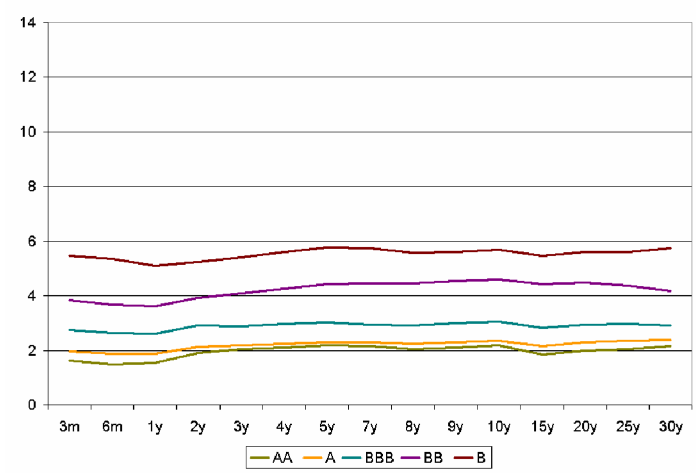
U.S. fixed income returns were positive in July, with the Barclays U.S. High Yield Index posting the highest return of 6.1%, further strengthening its year-to-date performance, which stands at 38.4%. Additionally, the Barclays Capital U.S. Corporate Investment Grade Index performed well on a monthly and year-to-date basis, posting returns of 4.3% and 13.0%, respectively. We believe the strong performance of both indices, as well as the tightening in corporate spreads within lower-rated credit-quality issues from the previous month, indicates bond investors' renewed credit risk appetite and desire to seek higher yields. The Barclays Capital U.S. Government Index and the Barclays U.S. Treasury 3-Month Index continue to lag due, in part, to the central bank's continued easing of U.S. monetary policy, which is intended to further aid the economic recovery. Credit spreads remain elevated as compared to 2008; however, for July, there was an observable tightening of corporate spreads within B and BB rated issues, specifically indicating increased stability and investor confidence in the credit markets.

Corporate Spreads—July 2009



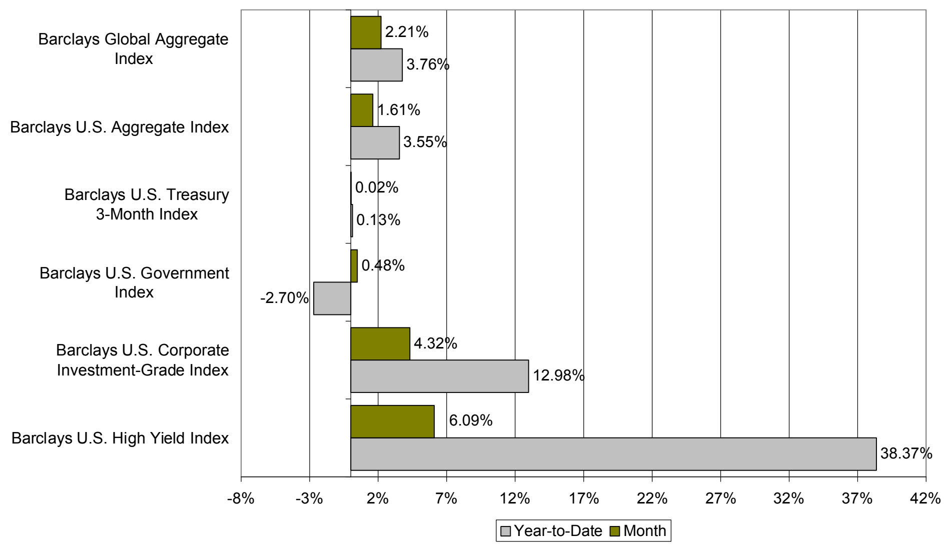
Source of data: Bloomberg

Corporate Spreads—July 2008



Source of data: Bloomberg

U.S. Fixed Income Returns—July 2009*



Source of data: Barclays Capital
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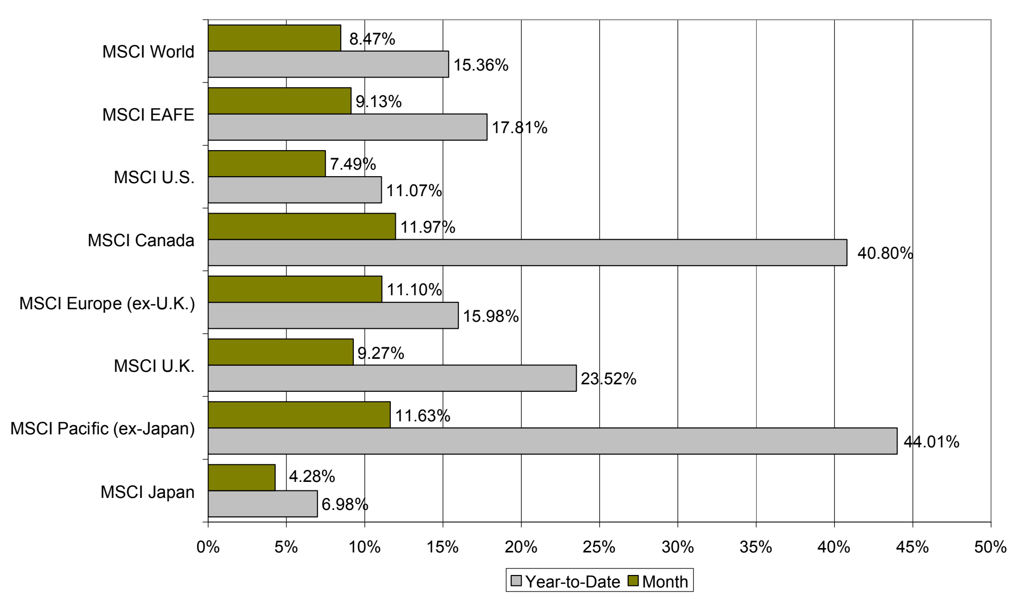
Global Market Review

Global Equity

In July, global developed markets posted positive returns in major regions. The MSCI Canada Index, which lagged the developed equity markets in June, posted the strongest return for the month—with a return of 12.0%—on the back of strong corporate earnings and a recovery in the price of crude oil. Additionally, for July, Canadian currency appreciated against the U.S. dollar by approximately 7.0%. On a year-to-date basis, the MSCI Canada Index and the MSCI Pacific (ex-Japan) Index posted strong returns of 40.8% and 44.0%, respectively. The MSCI Japan Index posted the smallest returns on a monthly and year-to-date basis, with returns of 4.3% and 7.0%, respectively, consistent with concerns over the decline of Japanese wage earners' total cash earnings, which is expected to hurt consumer spending and result in deflationary pressure on the economy.

Developed Markets Equity Returns—July 2009*



Source of data: MSCI Barra
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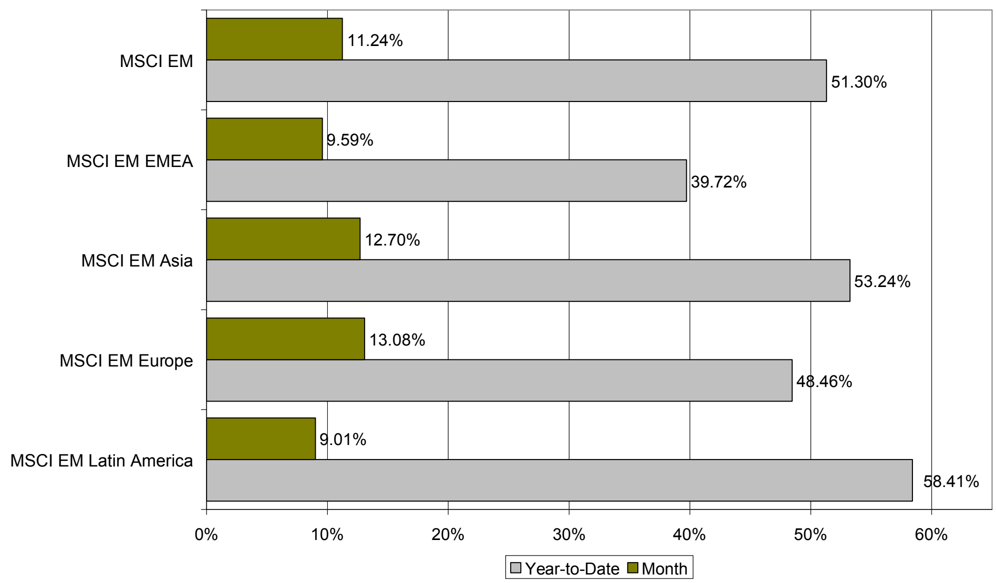
Major emerging markets regions rebounded in July, posting strong positive returns after regions experienced negative performance in June. The MSCI Emerging Markets Europe Index lagged emerging markets regions in June; however, it was the strongest performer in July, posting a 13.1% return. The MSCI Emerging Markets Asia Index followed as the second-strongest performer in July, returning 12.7%. Another strong month of returns further contributed to the substantial performance year to date across the major emerging markets indices, with the MSCI Emerging Markets Latin America Index outperforming its peers, with a 58.4% year-to-date return.

Emerging Markets (EM) Equity Returns—July 2009*



Source of data: MSCI Barra

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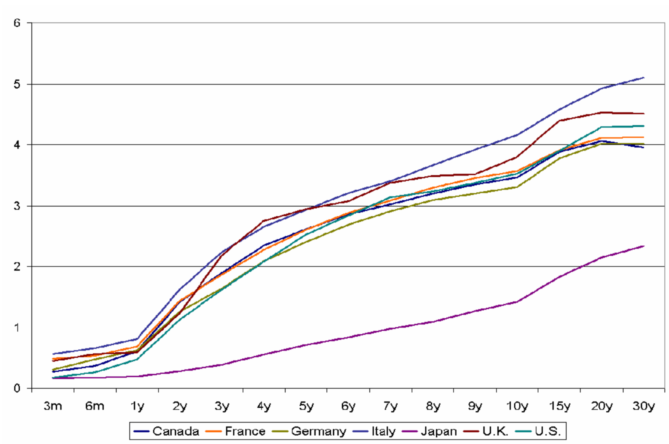
Global Fixed Income

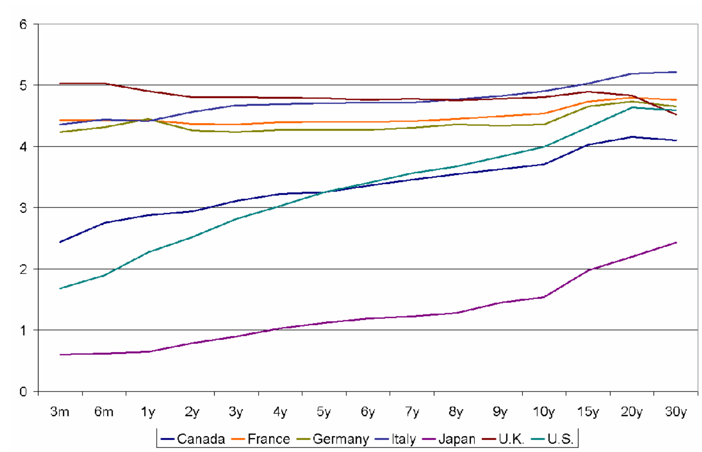
The global fixed income markets, as measured by the Barclays Capital Global Aggregate Index, returned 2.2% in July, which was above the Barclays Capital U.S. Aggregate Index return of 1.6%. Yields among the G7 countries remained relatively unchanged from the prior month, indicating the possibility of further stability in the global credit market. The G7 yield curves are currently upward sloping—as compared to flat or downward sloping in July 2008—with the exception of Japan, which has remained largely unchanged. The upward-sloping yield curves demonstrate the continued maintenance of accommodative monetary policies on a global basis, intended to further curb the pace of an economic decline and help foster continued recovery.

G7 Yield Curves—July 2009



Source of data: Bloomberg

G7 Yield Curves—July 2008



Source of data: Bloomberg

Sources: MSCI Barra, Standard & Poor's, Thomson Financial/Vestek Systems, Barclays Capital, U.S. Treasury—Office of Domestic Finance, Bloomberg, Lehman Live, Organisation for Economic Co-operation and Development, Federal Reserve, The Conference Board, World Bank, National Bureau of Economic Research, National Association of Realtors, Commerce Department and the Labor Department.