

Q4 2009

Despite falling over 25% in the first nine weeks of the year, the U.S. stock market rallied off its lows and turned in an impressive 26.5% positive return for calendar year 2009. While the end of 2008 was characterized by a flight to quality, 2009 saw investors leaving the safety of cash in order to purchase assets at bargain prices. This “return to risk” fueled a 67.8% return in the S&P500 from its March 9<sup>th</sup> low and even more impressive rebounds in emerging markets, financials and high yield debt. These gains notwithstanding, the S&P500 remains 25% off its October 2007 highs which is a testament to just how pronounced the credit and recession related declines really were.

The 4<sup>th</sup> quarter saw the equity markets continue their rebound with all major stock indices moving higher. This was largely driven by positive economic and earnings news with improvement being seen in GDP growth, corporate profits and unemployment. While the double digit unemployment rate remains a significant impediment to a sustained recovery, the pace of job losses has moderated and economists are hopeful that job creation is coming around the corner as businesses look to invest in future growth. The absence of wage pressures in the economy is keeping near term inflation expectations contained and allowing the Fed to continue their accommodative monetary policy with near zero interest rates. The more immediate challenge facing government policy makers is how and when to extricate themselves from the credit markets and, in particular, how they retreat from the mortgage bond market. This wind down of government support initiatives will be a necessary step in order to return to a normal functioning capital market and will seemingly be one of the top things to watch as we proceed in 2010.

Index	Q4- 2009	2009
S&P500	6.04%	26.46%
NASDAQ Composite	7.20%	45.36%
Russell 3000	5.90%	28.34%
Russell 2000	3.87%	27.17%
MSCI EAFE (US\$)	2.18%	31.78%
MSCI Emg Mkts (US\$)	8.58%	79.02%
Barclays Municipal-10yr	-1.27%	9.85%
Barclays Agg Bond	0.20%	5.93%

Foreign stock markets continue to outpace the U.S. in both developed and emerging economies. Many global market analysts feel that world growth is being fueled by a sharp rebound in the Pacific Rim economies and that this growth is what will propel the world economy through the near term recovery. Investor demand for exposure outside the U.S. throughout 2009 led to an increase in foreign currencies vis-à-vis the U.S. dollar which provided a positive currency return on top of the local stock market gains. This trend reversed however in the 4<sup>th</sup> quarter as the U.S. dollar rallied, perhaps indicative of increased risk aversion as emerging markets have seen substantial gains. The current quarter notwithstanding, the large U.S. deficits and low Treasury yields seem to make a case for a longer term retreat in the U.S. dollar which should bode well for foreign investments. Commodities and Real Estate investments led the 4<sup>th</sup> quarter turning in 9% and 11.5% returns, respectively. Fixed income investments turned in an impressive 2009 as credit spreads on high yield and investment grade bonds contracted thereby creating price appreciation. The High Yield index returned an impressive 58.2% for 2009, while munis and investment-grade corporates returned 12.9% and 18.7% respectively. Going forward, the prospect of rising rates presents fixed income markets with their share of challenges. High quality, short and intermediate maturities offer some defense from rising rates, but at the near term expense of lower yields.

Overall, 2009 looks consistent with a typical rebound year for asset prices. 2010 will be scrutinized much more heavily as investors will require evidence of continuing economic growth and stability absent government intervention and rock bottom prices.