

MONTHLY MARKET REVIEW

July 2010

U.S. Economy

The U.S. economic recovery has passed its initial upward thrust and appears to be shifting into a softer phase as post-recession inventory rebuilding has waned and fiscal and monetary stimulus have passed their peaks. Real U.S. GDP growth slowed to a less-than-expected 2.4% in the first quarter, down from 3.7% and 5.0% in the two previous quarters. Amid weakening consumer confidence, persistently high unemployment, and a yet-to-recover housing market, real personal consumption expenditures rose at an annualized rate of just 0.7% in the second quarter, down from 2.2% in the first quarter and 2.6% in the fourth quarter.

Revisions to recent data, including a wider-than-expected trade deficit and slower consumer spending, suggest that second-quarter growth is likely to be revised lower. The Conference Board's U.S. leading economic indicators index has cooled, with its six-month growth rate slowing from 5.6% at the beginning of the year to 2.6% through June, implying weaker, but positive economic growth moving forward. According to Bloomberg's most recent survey, economists are currently projecting economic growth in the 2.5% range for the rest of this year, down from a previous estimate of 2.8%, with growth expected to increase to 3.2% by the end of 2011. Unemployment is expected to remain high, above 9% into late 2011, with inflation slowing to near 1% by year-end.

As evidenced by a sharp decline in bond yields, near-term inflation concerns have given way to renewed fears over the weaker economic rebound and the potential for deflation. Year-over year-growth in the CPI index has fallen to 1.1% from 2.7% at the beginning of the year, while core-CPI (excludes food & energy) is now at just 0.9%, its lowest level in nearly 50 years. The ten-year Treasury yield has declined 0.75% since the end of April, while the 10-year and 3-month Treasury yield curve difference has flattened by more than 100 basis points. Despite the fears over the economy's strength, capital markets have continued to improve. Near-term concerns over Europe's fiscal problems have diminished with global stocks surging in July, equity volatility declining, credit spreads tightening, and bond issuance up.

On the monetary front, with heightened concerns over the economy's declining momentum and the potential for deflation, Federal Reserve officials have backed off more hawkish inflation-fighting comments and taken a more open, neutral tone in regards to possible further stimulus. At its August 10th meeting, the Fed acknowledged the slowdown in the economy in its official statement and announced that it will hold off on shrinking its balance sheet over the foreseeable future, a move that would pull money out of the economy. Instead of allowing the balance sheet to naturally shrink through maturities, the Fed will reinvest cash flows into long-term Treasuries. While the move is more symbolic, likely having a minimal effect on the money supply and longer-term interest rates, the move signals the Fed's intent to keep short-term interest rates at zero for a long period. Fed funds futures markets are now projecting no chance of an increase this year, with rates holding steady until late 2011.

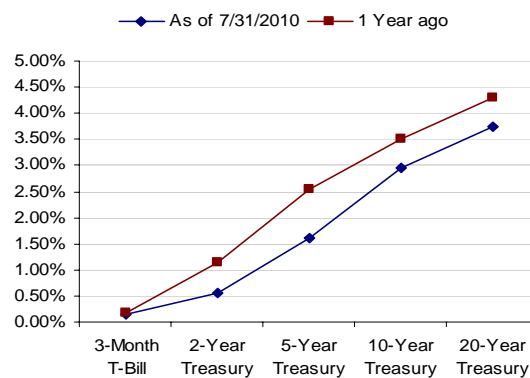
The effects of the last few years' massive fiscal stimulus are also waning. The expiration of the homebuyer tax credit sent monthly housing data into a downward spiral, revealing how much the government has been propping up the housing market. Additional government stimulus is (*cont'd on page 2*)

Market Data

Change in Price

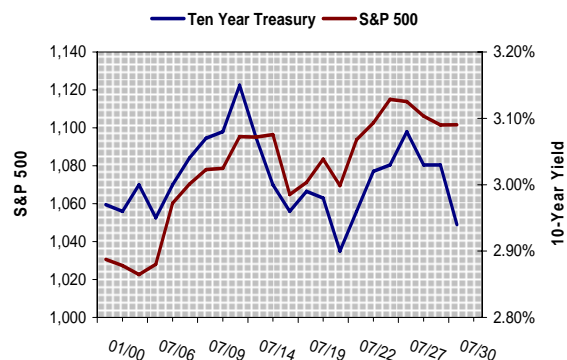
Equity Indices	7.31.10 Close	1-Month		YTD		1-Year	
		Pts.	%	Pts.	%	Pts.	%
Dow Jones Ind. Avg	10465.90	691.88	7.08%	37.90	0.36%	1294.29	14.11%
S&P 500	1101.60	70.89	6.88%	-13.50	-1.21%	114.12	11.56%
Nasdaq Composite	2254.70	145.46	6.90%	-14.45	-0.64%	276.20	13.96%
Commodities							
Oil: \$ Per Barrel	78.95	3.32	4.39%	-0.41	-0.52%	9.50	13.68%
Gold: \$ Per Ounce	1181.70	-64.20	-5.15%	85.50	7.80%	228.00	23.91%
Currencies							
\$ per € (euro)	1.31	0.08	6.65%	-0.13	-8.90%	-0.12	-8.46%
¥ (yen) per \$	86.47	-1.97	-2.23%	-6.54	-7.03%	-8.22	-8.68%
\$ per £ (pound)	1.57	0.07	4.98%	-0.05	-2.99%	-0.10	-6.13%

U.S. Treasury Yields:



Term	Yield as of 7.31.10	One-Month Change	One-Year Change
3 Months	0.15%	-0.03%	-0.03%
2 Years	0.55%	-0.06%	-0.58%
5 Years	1.60%	-0.19%	-0.93%
10 Years	2.94%	-0.03%	-0.58%
20 Years	3.74%	0.00%	-0.55%

Intra-Month Markets



U.S. Economy (cont'd from Page 1)

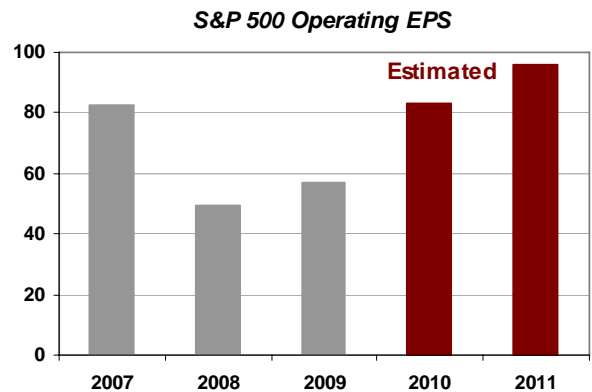
also running off each month. Significant further fiscal stimulus does not appear likely at this point as debate rages between those calling for more stimulus amid continued high unemployment and those concerned with budget deficits, emboldened by Europe's fiscal crisis.

Overall, the recent slowing in the economy has just confirmed what many economists had been predicting since the early stages of the recovery – the U.S. economy is likely to grow at below historical growth rates for an extended multi-year period of time as deleveraging continues at all levels (consumer, business, banking, and possibly government at some point), and that this below-average growth rate will result in elevated unemployment levels for a period well beyond those experienced in many past recoveries. These developments do not necessarily portend a double-dip recession.

U.S. Equities

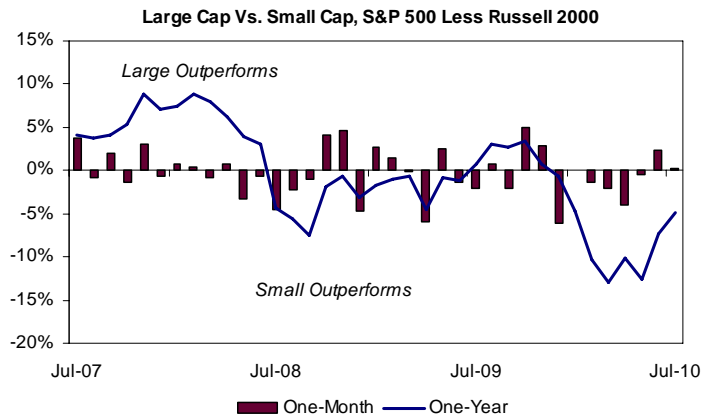
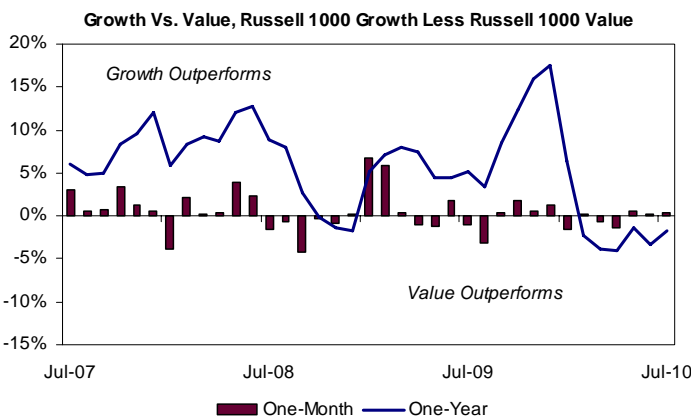
Stocks surged in July as immediate concerns over Europe's fiscal crisis ebbed and corporate earnings reports generally exceeded expectations. The S&P 500 index jumped 7.01%, bringing its year-to-date return to nearly flat levels. The small-cap Russell 2000 index rose a similar 6.87%, bringing its year-to-date return to 4.79% as small-cap stocks remained well ahead of their larger counterparts for the year. The Russell 1000 Growth index returned 7.13%, outperforming the 1000 Value index by 0.36%. REITS continued to perform strongly, with the NAREIT Composite index rising 8.99% in July, increasing its year-to-date return to 15.06% and its one-year trailing return to 48.68%.

According to data from Morgan Stanley and Thomson Financial, with 427 of the companies in the S&P 500 index having reported, second-quarter operating earnings have grown a strong 55% versus the year-ago period, led by a 340% rise in Financial sector earnings and a 133% rise in Materials sector earnings. All sectors reported positive earnings growth except Telecom, with more defensive sectors seeing earnings growth in the single-digit percentage range. Excluding Financials, earnings grew 38%, with expectations of a slowdown to less than 20% by year-end. Thus far, earnings reports have beat expectations by a wide margin (8.9%) that easily exceeds historical levels. As companies have reported, 2011 earnings estimates have declined slightly, but expected growth remains more than 15% (see chart). Versus expected 2010 operating EPS, the S&P 500 finished July with a P/E of 13.3, while the index's P/E over projected 2011 earnings is at 11.5. While the economy's recovery has weakened, corporate earnings have surged, spurring hopes that continued profitability growth may lead to further improvements in the labor market.



Data Source: Morgan Stanley, Thomson

The charts below illustrate the relative rolling returns of growth vs. value stocks and large-cap vs. small-cap stocks.



Index	Asset Class	1 Mo	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Wilshire 5000	All-Cap Core	7.06	(6.81)	1.20	15.69	(5.83)	0.51	0.24
S&P 500	Large-Cap Core	7.01	(6.69)	(0.11)	13.84	(6.78)	(0.17)	(0.76)
S&P 500/Citigroup Growth	Large-Cap Growth	6.93	(6.32)	(1.62)	12.71	(4.08)	0.43	(3.71)
S&P 500/Citigroup Value	Large-Cap Value	7.08	(7.05)	1.41	14.97	(9.61)	(0.91)	1.84
S&P 400	Mid-Cap Core	6.91	(7.29)	5.45	22.82	(2.36)	2.53	5.85
S&P 600	Small-Cap Core	6.34	(8.31)	5.41	19.17	(4.08)	0.88	6.47

U.S. Equities (cont'd from Page 2)

<i>Index</i>	<i>Asset Class</i>	<i>1 Mo</i>	<i>3 Mo</i>	<i>YTD</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>	<i>10 Yr</i>
Russell 1000	Large-Cap Core	6.95	(7.01)	0.11	14.51	(6.51)	0.02	(0.39)
Russell 1000 Growth	Large-Cap Growth	7.13	(6.49)	(1.06)	13.65	(4.25)	0.80	(4.08)
Russell 1000 Value	Large-Cap Value	6.77	(7.52)	1.30	15.39	(8.96)	(0.91)	2.92
Russell Midcap	Mid-Cap Core	7.19	(6.90)	4.98	23.21	(4.85)	1.59	5.08
Russell Midcap Growth	Mid-Cap Growth	6.88	(6.78)	3.34	20.17	(4.74)	1.57	(0.68)
Russell Midcap Value	Mid-Cap Value	7.45	(7.02)	6.50	26.14	(5.46)	1.22	8.08
Russell 2500	SMID-Cap Core	7.04	(8.01)	5.23	21.77	(4.00)	1.20	5.14
Russell 2500 Growth	SMID-Cap Growth	6.67	(7.00)	4.73	20.21	(3.71)	1.84	0.44
Russell 2500 Value	SMID-Cap Value	7.36	(8.85)	5.67	23.20	(4.65)	0.29	8.11
Russell 2000	Small-Cap Core	6.87	(8.89)	4.79	18.43	(4.32)	0.47	4.03
Russell 2000 Growth	Small-Cap Growth	6.61	(7.12)	4.15	16.71	(3.85)	1.07	(0.20)
Russell 2000 Value	Small-Cap Value	7.14	(10.48)	5.38	20.11	(4.97)	(0.24)	7.87
Russell Micro Cap	Micro Cap Core	5.70	(11.20)	5.83	15.92	(8.31)	(2.67)	4.28
NAREIT Composite Index	REITS	8.99	(1.48)	15.06	48.68	(3.82)	(0.35)	9.48

U.S. Fixed Income

The Barclays Aggregate gained 1.07% in July and has returned 6.46% year-to-date. Spread sectors within the index outperformed duration-matched U.S. Treasury securities, led by CMBS and Credit, outperforming by 1.28% and 1.23% respectively. The ABS, MBS, and Agency sectors also performed well versus Treasuries.

Treasury yields fell to record lows as the Aggregate index closed July with a yield-to-maturity of 2.58%, dropping 0.25% during the month. Spread sectors that hit record low yields include Credit and MBS, yielding 3.75% and 2.73% at month end, respectively. Option-adjusted-spreads on the CMBS sector have tightened this year falling 1.26% to 3.46%, while MBS spreads have actually turned negative at -.05%. Most other sectors have seen a modest drop in spreads over Treasuries this year.

<i>Index</i>	<i>Asset Class</i>	<i>1 Mo</i>	<i>3 Mo</i>	<i>YTD</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>	<i>10 Yr</i>
Citigroup 3-Month T-Bill	Cash	0.01	0.04	0.07	0.12	1.27	2.58	2.51
Merrill Lynch 1-3 Year U.S. Treasury	Short Treasuries	0.26	1.15	2.14	2.83	4.55	4.35	4.33
Barclays 1-3 Yr Govt/Credit	Short Govt/Credit Bonds	0.41	1.16	2.37	3.71	5.00	4.67	4.73
Barclays Interm. Aggregate	Interm. Core Bonds	1.04	3.14	5.87	8.36	7.43	5.94	6.27
Barclays Interm. Govt/Credit	Interm. Govt/Credit Bonds	1.09	3.20	5.70	7.99	7.02	5.67	6.10
Barclays Aggregate	Core Bonds	1.07	3.52	6.46	8.91	7.63	5.96	6.48
Barclays Long Govt/Credit	Long Govt/Credit Bonds	1.32	6.76	11.70	13.77	9.48	6.32	8.00
Barclays Government	Government Bonds	0.68	3.96	6.11	6.67	7.32	5.77	6.18
Barclays Credit	Corporate Bonds	1.92	3.53	7.65	12.60	7.97	5.92	7.01
Barclays Mortgage	Mortgage-Backed Bonds	0.86	3.13	5.35	7.52	8.29	6.54	6.56
Barclays US TIPS	TIPS	0.14	1.56	4.56	9.59	6.86	5.45	7.38
Barclays Municipals	Municipal Bonds	1.25	2.07	4.60	9.15	5.67	4.75	5.62
Barclays High Yield	High Yield Bonds	3.56	1.08	8.23	23.74	9.09	7.55	7.61
Merrill Lynch All U.S. Convertible	Convertible Securities	4.78	(3.35)	4.27	19.90	0.02	3.63	2.87

International

The MSCI EAFE index gained 9.49% in July. In a reversal from prior months, performance was led by Europe as the MSCI Europe index returned 11.66% and the euro currency gained 6.65%. On a year-to-date basis, the MSCI EAFE index has returned -4.67%. The MSCI Emerging Markets index gained 8.40% in July and is up 1.85% year-to-date. In July, the emerging market index was also led by Europe, which gained 13.43%.

European Union stress tests on 91 banks found that seven banks need to raise a combined 3.5 billion euros. Five of these banks were Spanish, with one German and one Greek bank also failing the tests. However, many analysts did not consider the tests to be strenuous enough as the tests took into account potential losses only on government bonds the banks keep in their trading account, and not on bonds they plan to hold till maturity. For example, most Greek debt held by banks are not kept in trading accounts and therefore would not have been included in the analysis.

An index of executive and consumer sentiment in the 16 euro-nation area increased to 101.63 from 99 in July, the highest level in more than two years. Inflation accelerated to the fastest pace in more than a year as consumer prices rose 1.7% in July from a year earlier after increasing 1.4% in June. Unemployment in the euro-area stood at 10% for the fourth straight month. Unemployment held at 9.6% over the entire EU, with Spain holding the highest rate at 20%.

In Japan, household spending rose 0.5% despite a decline in consumer prices of 1% over the past year as the country's long-term battle with deflation continued. The jobless rate climbed to a seven-month high of 5.3% as more people began looking for work. Factory output slid 1.5% from the prior month, well below economists' forecast of a 0.2% gain.

International (cont'd from Page 3)

<i>Index</i>	<i>Asset Class</i>	<i>1 Mo</i>	<i>3 Mo</i>	<i>YTD</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>	<i>10 Yr</i>
International Equities								
MSCI World	Global Developed Mkt Equity	8.13	(5.44)	(2.20)	10.40	(7.91)	1.49	0.53
MSCI EAFE	Intl Developed Market Equity	9.49	(3.90)	(4.67)	6.72	(9.83)	2.58	1.92
MSCI Europe	European Equity	11.66	(2.39)	(6.55)	7.42	(10.65)	2.36	2.19
MSCI Japan	Japanese Equity	3.56	(6.72)	0.82	0.19	(10.81)	0.46	(1.74)
MSCI Pacific	Pacific Equity	5.90	(6.21)	(0.41)	5.83	(7.97)	3.17	1.31
MSCI Emerging Markets	Emerging Market Equity	8.40	(1.80)	1.85	20.24	(1.28)	13.35	11.81
International Fixed Income								
Barclays Global Aggregate	Global Invest. Grade Bonds	3.40	3.34	3.08	6.22	7.27	5.91	6.86
Citigroup World Government Bond	Intl Developed Market Bonds	3.64	4.32	2.56	4.92	8.06	6.10	7.08
JP Morgan EMBI+	Emerging Market Bonds	4.38	5.18	9.71	19.30	10.04	9.29	10.77

Alternative Investments

<i>Index</i>	<i>Asset Class</i>	<i>1 Mo</i>	<i>3 Mo</i>	<i>YTD</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>	<i>10 Yr</i>
Goldman Sachs Commodity Ind.	Commodities	5.63	(7.92)	(6.21)	(0.55)	(12.43)	(8.09)	2.26
HFRI Equity Hedge	HF - Equity Long/Short	2.88	(3.00)	0.88	8.63	(2.00)	3.74	4.65
HFRI Equity Mkt Neutral	HF - Equity Market Neutral	0.88	(0.46)	0.25	1.18	(1.30)	2.04	3.62
HFRI Convert Arb	HF - Convertible Arbitrage	2.22	(0.40)	4.61	17.96	3.94	6.15	6.12
HFRI Distressed Sec	HF - Distressed Securities	0.86	(2.10)	5.05	18.97	(0.20)	4.96	9.02
HFRI Event Driven	HF - Event Driven Strategies	2.19	(1.63)	4.70	15.81	0.52	5.31	7.79
HFRI Fixed Income	HF - Fixed Income Strategies	1.93	(0.43)	6.60	15.02	1.94	3.77	6.10
HFRI Macro	HF - Macro Strategies	0.28	(1.31)	(0.74)	1.65	4.27	6.50	7.73