

Investment Commentary

MARCH 1, 2010

Last week saw a mild setback for equities that could be attributed to a combination of fierce winter storms in the Northeastern United States, ongoing concerns about economic growth and the prospects for hiring, and some disappointing consumer confidence figures. For the week, the Dow Jones Industrial Average lost 0.7% to close at 10,325, the S&P 500 Index declined 0.4% to 1,104 and the Nasdaq was down 0.3% to 2,238. With these declines, US markets are now down roughly 1% for the year.

Recent economic weakness in the United States has come largely from home sales, goods orders and unemployment claims. Last week's sore spot was consumer confidence, which experienced a sharp drop, although we would point out that the data was not consistent with other consumer surveys, and we believe might be an aberration. Business confidence levels have been trending upward, which suggests that the broader economy continues to improve. In the housing arena, prices have been slowly recovering, with the sharpest rebounds seen in California and the Southwest, the areas hardest hit in the recession.

Of all the economic data, we believe employment trends remain the most critical, since the jobs picture will determine whether this recovery is sustainable, as the labor market is the mechanism that sustains and reinforces growth. At present, we believe corporate earnings and balance sheets are supportive of companies increasing their payrolls. We have already seen improvements in productivity and business sales figures, and we think jobs growth should also resume in the months ahead. We had hoped to see a turnaround in February data, but the many weather issues that have plagued much of the country have made this less likely.

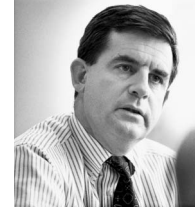
Overall, we would paint the economic picture as one that includes strongly rebounding manufacturing activity; moderately improving consumer spending; a still-depressed housing market; ongoing declines in bank lending; slow progress on the employment front; and downward trending inflation. In sum, we continue to believe the economic recovery remains intact, but will produce mixed data and ongoing uncertainty. From an interest rates perspective, we maintain our view that the Federal Reserve is likely to raise the Fed Funds target rate by year-end, but, at this point, is still awaiting meaningful improvements in the labor market.

At present, investors are caught between the crosscurrents of lingering debt and deflation concerns and fears over premature monetary policy tightening on one hand, and signs of improvements in economic growth and the corporate earnings landscape on the other. In our minds, it comes as no surprise that we have been witnessing increased back and forth in stock prices over the past several weeks, as this bull market has matured since last year. We expect to see continued uneven trading in the markets for the time being, but maintain our belief that the positive factors are a sign that there is still long-term upside potential for higher-risk assets.

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