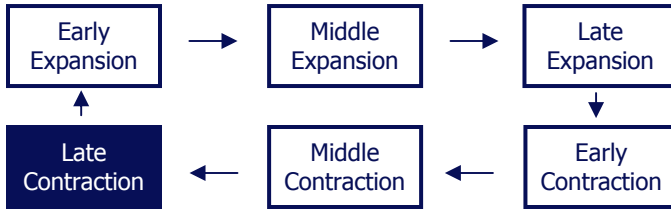


**CURRENT ECONOMIC CYCLE**

**ECONOMIC NEWS**

- Economy remains in recession, but there are signs of bottoming
- Unemployment continues to rise, likely to reach 10% by year-end
- Currently experiencing deflationary pressures, but rising oil and commodity prices should spur higher prices in the future
- The Federal Reserve is keeping short-term interest rates low and is buying Treasury & mortgage bonds to drive long rates down

**CURRENT ASSET CLASS ALLOCATIONS**

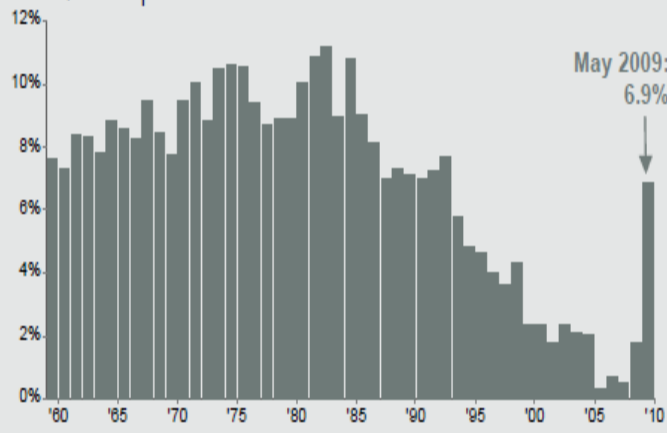
Cash & Equivalents	<i>Underweight</i>
Fixed Income	<i>Overweight</i>
Equities	<i>Underweight</i>

**MARKET TRENDS**

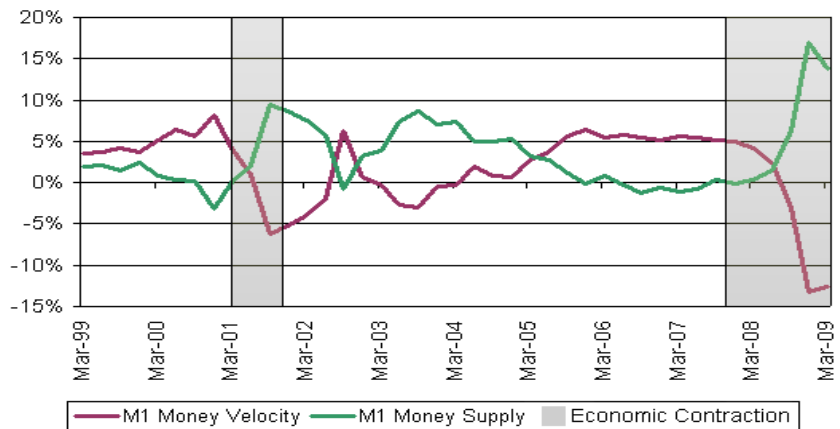
- After rallying off the March lows, the equity markets have moved sideways since the first week of May
- The internals of the stock market show that as prices rose, the trading volume (shares bought) dropped rapidly
- This is normally an indication that a sustainable rally is in doubt
- Corporate bonds have stabilized as economic fears subsided

**Personal Savings Rate**

Annual, % of disposable income



The graph shows how rapidly the consumer has shifted from spending to saving. As long as the employment picture is bleak, savings and debt reduction will be the focus.



Source: Bloomberg  
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The government has been pouring money into the economy, trying to stimulate growth. But the chart shows that the "velocity" of money (spending for goods & services) is going in the other direction.

**CURRENT THOUGHTS**

The U.S. is in the 20th month of the deepest and longest recession of the post-war period, making a rapid economic recovery even more difficult. There have been signs of bottoming in different areas, but at present, the only stimulus is coming from the government checkbook as consumers remain on the sideline. The massive spending programs will ultimately have an impact, but without personal spending it will be difficult for the economic expansion to be robust.

Corporate earnings should gradually improve for the rest of 2009, with most of the positive news in the 4th quarter. Until the good news is more tangible and less imagined, stock prices will remain under pressure. If a pull-back in the markets turns upward on higher volume, then adding to equity positions will be warranted. Corporate bonds continue to offer value over Treasuries as the risks of defaults decline. Longer-term energy and commodities will provide protection against inflation and rising rates.

*The purpose of update is to share some of our current views and research. Although we make every effort to be accurate in our content, data is derived from other sources. While we believe these sources to be reliable, we cannot guarantee their validity.*