

FIRST QUARTER 2011 ECONOMIC UPDATE

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INVESTMENT COMMENTARY

Equities Rise Despite Escalating Geopolitical Risks

Despite extraordinary events in the world, including unrest in the Middle East, soaring oil prices and devastation in Japan, the U.S. stock market rebounded from its first selloff in 2011 to reclaim the ground it held prior to the earthquake in Japan.

The first quarter saw numerous shifts in market leadership but ended with small capitalization stocks edging out their larger capitalization counterparts for the quarter as the Russell 2000 gained 7.94%

versus 5.92% for the S&P 500. Both domestic and international stocks posted positive returns

for the quarter with domestic stocks outpacing developed country international stocks.

On the fixed income front, a flight-to-quality occurred in the middle of March which led to increased demand for Treasuries. However, flight-to-quality bids were short-lived as investors started to see signs of progress in the Middle East and put the risk trade back on. High yield bonds, as measured by the Bank of

America/Merrill Lynch High Yield Master Index, returned 3.90% for the quarter. Municipal bonds regained their footing and turned out a positive return of 0.51% for the quarter.

Looking ahead, the situation in Japan appears to be moderating. In the short-run, we are likely to see interruptions in manufacturing and global supply chains as Japan struggles to get back on its feet. According to the Bank Credit Analyst, a global

investment research firm, Japan has contributed about 2% to 3% to global economic growth over the past five years on average, so it seems unlikely

that an economic slowdown in Japan could bring about a global recession.

On the other hand, the growing turmoil in the Middle East represents a risk to the economic recovery because significantly higher oil prices would represent a serious threat to global economic growth. Predicting the outcome of events in the Middle East and their resulting impact on oil prices is, of course, impossible.

IT IS UNLIKELY THAT AN ECONOMIC SLOWDOWN IN JAPAN COULD BRING ABOUT A GLOBAL RECESSION

MARCH 31, 2011 INDEX RETURNS

	1st Qtr.	1 Year
Barclays Aggregate Bond	0.42	5.12
US High Yield Master Bond	3.90	14.18
Barclays Municipal Bond	0.51	1.63
S&P 500	5.92	15.65
Russell 2000	7.94	25.79
MSCI EAFE	3.36	10.42
DJ UBS Commodity Idx.	4.45	28.49
DJ US Select REIT	6.70	24.44

SOURCE: MORNINGSTAR®

Based on the analysis of current information, we believe that these risks are unlikely to derail our economic recovery. At present, U.S. monetary and fiscal policy remains conducive to stronger growth, economic fundamentals remain strong and, contrary to what many believe after a trip to the gas pump, domestic inflationary pressures remain in check.

THE ECONOMY AT A GLANCE



Inflation

- On a seasonally adjusted basis, consumer prices increased 0.5% in the month of February. The higher than expected increase was primarily driven by increases in food and energy prices. (1)
- Overall, inflation remains subdued in the United States. However, it has become a concern in many developed and emerging market countries.



Interest Rates

- The press release from the March Federal Open Market Committee (FOMC) meeting suggests that the economic recovery is on firmer footing and that the labor market continues to improve gradually. However, given the depressed nature of the housing sector and the elevated unemployment rate, the FOMC is maintaining their target for the Federal Funds Rate for the time being. (2)



Employment

- The unemployment rate in the month of March fell to a two-year low of 8.8%. The economy added 216,000 jobs last month with job gains occurring in the healthcare, hospitality, mining and professional and business services sectors. (3)
- Overall, the employment situation continues to improve but at a very slow pace.



Economic Growth

- Gross domestic product (GDP) for the fourth quarter was revised upward to an annual rate of 3.1%. The upward revision reflected better readings on nonresidential fixed investment and consumer spending. (4)



Corporate Profits & Revenue

- U.S corporations continue to post strong corporate profits despite a slow recovery. According to data from the Bureau of Economic Analysis, U.S. corporate profits hit an all-time high at the end of 2010. (5)
- Typically, high corporate profits have been a constructive development for strong labor demand.



Risks

- Rising commodity prices threaten to pinch corporate profit margins and consumer's wallets as turmoil in the Middle East continues.
- Japan's nuclear situation has the potential to rattle markets.
- The housing market remains weak and shows little sign of recovery.

Disclaimer

The BarCap Aggregate Bond Index (Barclays Aggregate Bond) is a market-capitalization weighted index that is considered to be representative of U.S. traded investment grade bonds. The Bank of America Merrill Lynch High Yield Master Index (US High Yield Master Bond) is a market-capitalization weighted index that tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market. The BarCap Municipal Index (Barclays Municipal Bond) is a market-capitalization weighted index that is considered to be representative of U.S. traded investment grade municipal bonds. The Standard & Poor's 500 (S&P 500) is a market capitalization free-float adjusted index of the prices of 500 large capitalization common stocks traded in the United States.. The Russell 2000 Index is a market capitalization free-float adjusted index that is considered to be representative of the small cap segment of the U.S. equity universe. The MSCI EAFE Index is a market capitalization weighted index and is designed to measure the equity market performance of developed markets (Europe, Australasia, and Far East) excluding the U.S. and Canada. The Dow Jones UBS Commodity Index is a price weighted index composed of futures contracts on physical commodities. The Dow Jones US Select REIT Index is a market capitalization free-float adjusted index that measures the performance of the Real Estate Investment Trust (REIT) Industry. The market indices referenced are unmanaged. You cannot invest directly in an index.

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Sources:

- (1) United States Bureau of Labor Statistics, Economic New Release, Consumer Price Index Summary, March 17, 2011
- (2) Board of Governors of the Federal Reserve System, Press Release, March 15, 2011
- (3) United States Bureau of Labor Statistics, Economic News Release, Employment Situation Summary, April 1, 2011
- (4) United States Department of Commerce Bureau of Economic Analysis, News Release, March 25, 2011
- (5) United States Bureau of Economic Analysis, National Economic Accounts, News Release March 25, 2011

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