Investment Commentary

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Equity markets advanced for the second consecutive week as fears of contagion from the European sovereign debt crisis continued to recede somewhat. For the week, the Dow Jones Industrial Average climbed 2.4% to 10,451, the S&P 500 Index advanced 2.4% to 1,118 and the Nasdaq Composite rose 3.0% to 2,310.

Many observers continued to express concerns about the possibility of a double-dip recession that could derail the current bull market. True double-dip recessions are very rare, and would require a significant shock to demand levels, which we do not think will occur. What we do believe we have been witnessing is a pullback in growth momentum and a decline in risk appetites — events that are normal during economic recoveries.

There are several risks facing the global economy, and almost all of them are policy- or politics-related, including the European debt crisis, the risks of regulatory reform, the implementation of austerity measures, Chinese policy tightening and the inflation/deflation debate inside the United States. On balance, we continue to believe that the economic recovery is on track, but we acknowledge that the downside risks to consumer and business confidence levels have become more elevated over the past couple of months.

Although equity markets have recovered somewhat over the past couple of weeks, we expect volatility and uncertainty levels will remain high for some time. Our interpretation of the recent rebound is that investors have become slightly more confident that the macro risks have not yet manifested themselves in a serious manner. Additionally, equity market valuations have become more attractive, especially when compared to alternatives. The forward price-to-earnings ratio of the S&P 500 recently fell to around 13 times, its lowest level since 1995. Compared to the extremely low yields being offered by Treasuries, many investors have decided that stocks have become more attractive. Regarding earnings, forward expectations for 2011 may be too optimistic, but for the rest of this year, we think they are reasonable. First-quarter earnings advanced at close to $78 per share, and should come in somewhere around $82 for all of 2010.

Looking ahead, we expect that equity markets should be able to make additional gains over the course of this year. This outlook is not so much a forecast of significantly improving economic news as it is an expectation that many of the risks facing investors will fade over the coming months. The direction of financial regulatory reform in the United States should become more clear and the slowdown in Chinese growth should result in a soft landing. The uncertainty surrounding European sovereign debt remains the chief wild card. Policymakers have made some progress in terms of obtaining funding and cutting some deficits, but much hard work (both economically and politically) still remains and the ultimate end game remains uncertain.

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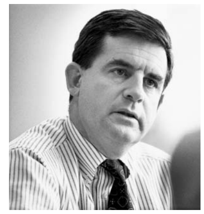

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