Economic & Market Review

~ February 2011 Investment Newsletter ~

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Monthly Summary

Earnings reports and economic progress enabled continuation of positive capital market momentum for much of February. Prior to backing off near month-end, the S&P 500 had more than doubled from the March 2009 bottom and was up nearly 30% from the lows of late August. Year-to-date, 2011 has registered the strongest annual start to the stock market since 1998.

Gross domestic product hit a new record in the fourth quarter of 2010. Manufacturing activity is at the highest level since 2004, and other economic metrics such as initial jobless claims and consumer confidence are showing progress, albeit modest, after stalling in prior months.

Economic and geopolitical challenges remain. The domestic economy is saddled with stubbornly high unemployment, a damaged housing market, and fragile government finances. Expansionary policy measures are in no small part providing the foundation to much of the positive economic progress previously discussed. Globally, inflationary concerns are ramping up in both developing and developed economies. China, India, and other developing economies are actively battling inflationary pressures while policymakers from the UK and euro zone are expected to follow suit in the near future. These actions pose challenges to global economic growth.

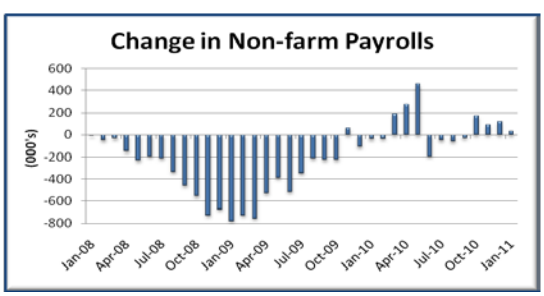
Civil unrest and violence in the Mideast and North Africa accelerated throughout February with contagion engulfing an increasing number of countries. Owing to the region's concentration of oil reserves and output, disruption has driven a spike in oil prices as well as intermittent flights to traditional safe havens such as gold, the dollar, and U.S. Treasury securities. Risk assets, such as equities, have also responded by declining from higher levels set earlier in the month. We appear to be in the early innings regarding this unrest, which continues to spread. As a result, capital market volatility and headline risk may be heightened going forward.

February's Economic Releases

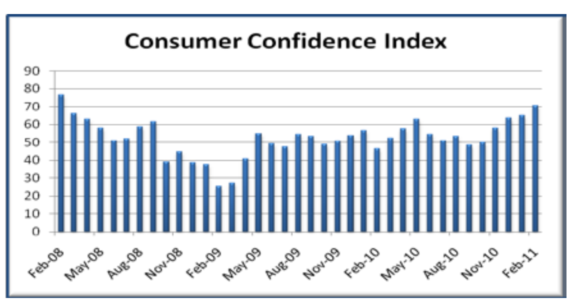
General	Prior	Current
GDP growth	2.6% (Q3)	2.8% (Q4)
Trade balance	-$38.3 B (Nov)	-$40.6 B (Dec)

Employment	Prior	Current
Initial jobless claims	413,000	391,000
Continuing claims	3.9 MM	3.8 MM
Nonfarm payrolls	121,000 (Dec)	36,000 (Jan)
Unemployment rate	9.4% (Dec)	9.0% (Jan)
Average weekly hours	34.3 (Dec)	34.2 (Jan)

Consumer	Prior	Current
Consumer confidence index (Conf. Board)	64.8 (Jan)	70.4 (Feb)
Retail sales growth (YoY)	7.7% (Dec)	7.1% (Jan)
Consumer credit	$2.0 B (Nov)	$6.1 B (Dec)



Data Source: U.S. Department of Labor

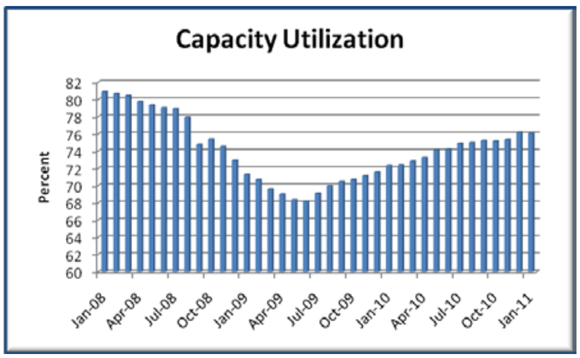


Data Source: The Conference Board

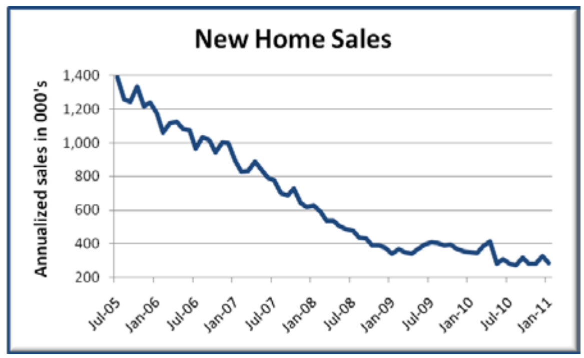
Manufacturing & Service	Prior	Current
ISM manufacturing index	58.5 (Dec)	60.8 (Jan)
ISM non-manufacturing index	57.1 (Dec)	59.4 (Jan)
Durable goods orders growth	-0.4% (Dec)	2.7% (Jan)
Industrial production growth	1.2% (Dec)	-0.1% (Jan)
Capacity utilization	76.2% (Dec)	76.1% (Jan)

Real Estate	Prior	Current
New home sales	325,000 (Dec)	284,000 (Jan)
Existing home sales	5.2 MM (Dec)	5.4 MM (Jan)
Case-Shiller home price index (YoY)	-1.6% (Nov)	-2.4% (Dec)

Inflation	Prior	Current
Consumer price index/Core (YoY growth)	1.5%/0.8% (Dec)	1.6%/1.0% (Jan)
Producer price index/Core (YoY growth)	4.0%/1.3% (Dec)	3.6%/1.6% (Jan)



Data Source: U.S. Federal Reserve



Data Source: U.S. Census Bureau

Market Returns

The S&P 500 index gained 3.4% for the month and is now up 5.9% for the year. Developed international equity markets, as defined by the MSCI EAFE Developed Markets index, were up 3.3% for the month. Emerging markets continued to be challenged this year with the MSCI Emerging Markets index declining 0.9% for the month. Year-to-date, international developed and emerging markets returned 5.7% and -3.6%, respectively.

In the fixed income market, the Barclays US Aggregate index was up 0.3% for the month and the 10-year U.S. Treasury bond ended with a yield of 3.42%, no change for the month and up slightly for the year. For the year, the Barclays U.S. Aggregate has gained 0.4%. On a global basis, bonds were up 0.6% for the month and 0.8% for the year.