

TALKING POINTS

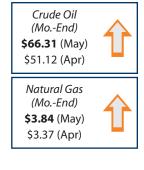
A Recap of May 2009

The Economy

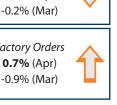
The Blue Chip Economic Indicators survey in May called for GDP in the U.S. to decline by 2.8% in '09, vs. 2.6% last month. The economists polled expect 1.9% growth in 2010, vs. 1.8% last month. Nearly 80% believe total housing starts are at or near a bottom. The process of cleaning up the financials is approximately 21 months old. The "stress tests" conducted at the largest troubled banks revealed a \$75 billion shortfall in capital as of the start of May. Since the first week in May, the banks have secured \$56 billion in new capital, according to Treasury Secretary Timothy Geithner.















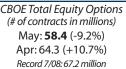


The Stock Market

Eighty-six out of the 134 subsectors that comprise the S&P 500 posted a gain in May, down from **Indices** (Source: Bloomberg) May 12-mo. S&P 500 5.6% -32.6% 121 last month. In May, the dividend-payers (362) in the S&P 500 (equal weight) posted a total DJIA 4.5% -30.4% return of 5.89%, vs. 7.12% for the non-payers (138), according to Standard & Poor's. Year-to-date, Nasdaq 100 3.1% -28.9% the payers are down 1.61%, vs. a gain of 24.12% for the non-payers. For the 12-month period S&P 400 2.7% -33.5% ended May '09, payers were off 38.89%, vs. a decline of 31.57% for the non-payers. The number of Russell 2000 3.0% -31.8% dividend increases so far in 2009 totaled 77. That significantly lagged the 141 increases registered MSCI World (ex U.S.) (USD) 12.6% -36.2% at this point in 2008. The number of companies that decreased their dividend totaled 54, up from -34.7% MSCI Emerging Markets (USD) 17.1% 14 a year ago. Commodities registered their largest one-month gain in May (aided by a 6.6% drop May 12-mo. **Growth/Value** (Source: Bloomberg) in the \$) since September of 1990, when Iraq invaded Kuwait, according to Standard & Poor's. The S&P 500 Citigroup Growth 4.9% -29.0% S&P GSCI Index jumped 19.67% in May. The index gained 22.94% in September of 1990. The 6.4% S&P 500 Citigroup Value -36.3% following shows how the various commodities that comprise the index have performed (May & S&P Midcap 400/Citigroup Growth 3.5% -32.9% 12-month): Energy (25.44% & -5.39%); Industrial Metals (5.82% & -44.61%); Precious Metals (11.41% S&P Midcap 400/Citigroup Value 1.9% -34.1% & 4.79%); Agriculture (12.37% & -22.82%); Livestock (-0.99% & -31.48%); and Soft (9.53% & -6.52%). Russell 2000 Growth 3.9% -31.6% The price of crude oil surged 101.8% over the past 75 trading days through 6/1. Russell 2000 Value 2.1% -32.2%











The yield on the 10-Yr.T-Bond jumped 34 basis points in May closing at 3.46% – 60 basis points below its close (4.06%) on 5/30/08. The story in May was concern over the mounting debt in the U.S. The Obama Administration recently upped its deficit projection for the current fiscal year ending in September from \$1.75 trillion to \$1.84 trillion, according to SmartMoney.com. It bumped up next year's from \$1.17 trillion to \$1.26 trillion. Last year's deficit totaled \$458 billion. As a result, total sales of government bonds with maturities of two years or longer are expected to reach \$2.1 trillion in 2009, up from \$880 billion in 2008, according to Barclays Capital. Net sales, which adjust for maturing debt, could hit \$1.55 trillion this year, up from \$332 billion last

VIX Volatility Index (S&P 500) 28.92 (5/29) 36.50 (4/31) Record 11/20/08: 80.86



The Bond Market

Index (Source: Barclays)	<u>May</u>	<u>12-mo.</u>	<u>Yield</u>
U.S. Treasury: Intermediate	-0.66%	7.12%	1.85%
GNMA 30 Year	0.16%	8.61%	4.31%
Municipal Bond (22+)	2.63%	-2.50%	5.59%
U.S. Aggregate	0.73%	5.36%	4.08%
Intermediate Corporate	3.51%	1.15%	6.00%
U.S. Corporate High Yield	6.73%	-7.77%	13.71%
Global Aggregate	3.57%	2.42%	3.45%
Global Emerging Markets	5.90%	-4.79%	8.40%

Key Rates as of May 29 0-0.25% Fed Funds 2-Yr. T-Note 0.92% 10-Yr. T-Bond 3.46% 30-Yr. Mortgage 5.23% Bond Buyer 40 5.32%

(Source: Bloomberg)

year. China is concerned about the safety of its \$768 billion invested in U.S. Treasuries. Key Yield Spread The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Bond was 1,070 basis points on 5/29/09, down from 1,251 on 4/30/09. It was 604 on 5/31/08. (Source: Bloomberg)

2009 Debt Issuance thru 4/09					
(Source: Thomson Financial)					
Debt Category	<u>\$ Amount</u>	% change over '08			
Corporate	\$637.1 Billion	+89.1%			
Convertible	\$4.9 Billion	-59.9%			
Asset-Backed	\$23.1 Billion	-67.3%			
Municipal	\$121.6 Billion	-11.2%			

The Investment Climate

Net cash inflows from equity funds totaled \$12.3 billion in 4/09, vs. outflows totaling \$27.1 billion in 3/09, according to the Investment Company Institute. Bond funds had inflows totaling \$28.8 billion, vs. inflows totaling \$19.9 billion in 3/09. Money Market funds had outflows totaling \$23.2 billion, vs. outflows totaling \$77.0 billion in 3/09.Y-T-D thru April, equity fund outflows totaled \$30.7B, vs. \$82.3B in bond fund inflows & \$47.2B in MMF outflows.