

Highlights

The U.S. stock market reached a 9-month high in July as speculation increased that the recession is nearing an end. The S&P 500 increased 7.5% for the month and according to Bloomberg, the Dow Jones Industrial Average experienced its best monthly return since 2002. The national manufacturing Production Manager's Index rose in July, and the Gross Domestic Product, which measures the total of goods and services produced by the U.S., decreased by 1% during the 2nd quarter, better than had been expected. Announcements such as these led to an increase in the prices of various commodities including as oil and copper, which can be expected to rise as the economy strengthens. Additionally, the dollar declined as investors began to look for more attractive risk/reward opportunities, which should make domestic goods and services more attractive to foreign investors.

Source of Data: Bloomberg

Asset Class	Index	7/31/09	Total Return 1 Month	Total Return 3 Month	Total Return YTD	Total Return 1 Year
Domestic Equities	Dow Jones Industrial Average	9,172	8.75%	13.20%	6.56%	-16.61%
	S&P 500	987	7.57%	13.81%	10.97%	-19.96%
	S&P 400 Mid-Cap	628	8.74%	12.41%	17.95%	-20.25%
	Russell 2000	557	9.63%	14.60%	12.52%	-20.70%
International Equities	EAFE Index	1,425	9.13%	21.41%	17.97%	-22.50%
Fixed Income	Barclays Capital Intermediate Gov/Cr	-	1.38%	2.61%	3.01%	6.52%
	Barclays Capital 7 Yr Muni	-	2.16%	1.47%	5.27%	8.01%

Source: Bloomberg

Market Update

Equities:

After slowing considerably in June, the equity markets in July resumed the momentum experienced in April and May, and as a result, the third quarter of 2009 got off to a strong start. On the domestic side, small caps led the way yet again, with the Russell 2000 index up by over 9.6%. On the international side, the developed markets, as defined by the Morgan Stanley EAFE index, were up by 9.13%. Of the ten sectors that comprise the S&P 500 index, materials experienced the strongest performance, with the S&P 500 materials index up by over 13%. That sector was followed by the consumer discretionary, industrials, and tech indices, each of which were up by a little over 9%. Telecom and utilities experienced the lowest performance, but even those two were up at least 3.6% each.

Source of Data: Bloomberg

Fixed Income:

The fixed income markets turned in a positive performance during July as well. On the taxable side, the U.S. treasury markets were relatively flat for the month, with the 10-year treasury up just .48%. For investors willing to take on a little more risk, however, the Barclay's U.S. Government/Credit index, which includes agency and corporate bonds, was up 1.38%. As in prior months, bonds with longer maturities experienced stronger performance than shorter bonds. On the tax exempt side, municipal bonds continue to experience stronger performance in 2009 than taxable bonds of comparable maturities. The Barclays 7-year Municipal Bond index was up 2.16% in July, bringing the year-to-date total return to just under 5.3%. Similar to the taxable bond market, longer municipal bonds continue to outperform shorter bonds. Supply has dwindled in the municipal market, contributing to the outperformance.

Source of Data: Barclay's Capital

Bottom Line

More positive economic indicators are beginning to appear, and we continue to maintain our outlook of being "cautiously optimistic." While the S&P 500 retailer index is up this year, consumers still have a long way to go toward deleveraging. Additionally, unemployment remains high and initial jobless claims continue to rise. Housing appears to be nearing the bottom, but it will still be some time before homeowners begin to feel the "wealth effect" again. Also, the commercial real estate market, which has regained some of what it lost late last year, still has a long way to go due to high debt and low occupancy. We continue to position managed portfolios to be a little less defensive than they have been over the past couple of years.

Investment Team

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