Monthly Investment Update

First National Bank
Investment Management & Trust

July 2009

Highlights

The momentum of the stock market faded in June as most indices reported relatively flat returns for the month. Even with subdued returns in June, the S&P 500 Index had its best three months since the fourth quarter of 1998.[1] Fixed income returns were mixed in the month, with corporate bond holders experiencing the best relative returns.[1] Municipal bonds and U.S. Treasury returns were slightly negative in June.[1] The returns in commodities were also mixed as the CRB Rind Index (22 basic commodities) had +4.8% performance, but gold returns were -4.2%.[2]

Source of Data: 1. Bloomberg, 2. Bank of America Securities

Asset Class	Index	6/30/09	Total Return 1 Month	Total Return 3 Month	Total Return YTD	Total Return 1 Year
Domestic Equities	Dow Jones Industrial Average	8,447	-0.41%	11.96%	-2.01%	-23.00%
	S&P 500	919	0.20%	15.93%	3.16%	-26.21%
	S&P 400 Mid-Cap	578	0.62%	18.75%	8.47%	-28.02%
	Russell 2000	508	1.48%	20.69%	2.64%	-24.99%
International Equities	EAFE Index	1,307	-0.52%	25.64%	8.09%	-31.26%
Fixed Income	2-year USTN	1.11%	-0.21%	-0.14%	0.12%	5.34%
	10-year USTN	3.54%	-0.17%	-6.19%	-8.74%	7.41%

Source of Data: Bloomberg

Market Update

Equities

June's equity performance was similar across various asset classes with U.S. small caps leading the market. After a huge bounce in April and May, international markets corrected slightly in the month. For the second quarter, both small caps as defined by the Russell 2000 Index and international markets, both developed and emerging, had returns of over 20%. On a sector basis, utilities and information technology led the market with returns of 5.1% and 4.0%, respectively. On the negative side, basic materials and the energy sector lagged the market in June. For the second quarter, financials led the market rebound.

Source of Data: Bloomberg

Fixed Income

Investors willing to take credit risk were rewarded with the Barclay's Capital U.S. Credit Index up 2.4% in June and 6.9% so far in 2009. This compares favorably to the -0.1% June return and -3.2% year-to-date return of the Barclay's Capital U.S. Government Index. The relative returns are a definite reversal of 2008 in which government returns were solidly positive and corporate returns were negative. In terms of the yield curve, longer maturity bonds (>10 years) outperformed shorter maturity bonds (1-3 years) during June. Even with this recent rebound, longer maturity bonds have underperformed so far in 2009. Municipal bonds were leading the fixed income market through May, but did experience negative performance in June. The Barclay's Capital 7 Year Municipal Index was down 0.9% but remains in positive territory for 2009 (+3.1%).

Source of Data: Barclay's Capital

Bottom Line

In economic news, the Federal Reserve's Beige Book stated that there are signs that the economic decline is slowing. Most economists agree with the Fed and believe we're past the worst period in the economy. The weak labor market and extent of continued job losses are casting doubt on prospects for a quick economic recovery, however. The unemployment rate, which recently rose to 9.5%, is now expected to increase to over 10%. On the positive side, construction spending and personal consumption are showing signs of an economic bottom. The stock market and riskier fixed income assets have rebounded with news that the economy is getting "less bad". The key to future positive performance of these asset classes is a continued improvement and return to global economic growth.

Source of Data: Federal Reserve

Investment Team

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*These individuals make up Tributary Capital Management. Tributary Capital Management provides sub-investment advisory services to Investment Management & Trust clients.