

### Highlights

Equities continued their strong rebound as the S&P 500 Index returned +3.6% in August and is now up 40.5% over the last six months.<sup>1</sup> Recent economic reports have been better than expected, including manufacturing, pending home sales and residential construction.<sup>2</sup> As a result, economists now believe that the recession, which gripped the economy over the last year, is ending. According to Bloomberg, economists now anticipate second half 2009 GDP growth of 2.1% in the U.S. The fixed income market also reported positive returns in August, led by corporate and high yield bonds.

1. Bank of America, 2.ISI

Asset Class	Index	8/31/09	Total Return 1 Month	Total Return 3 Month	Total Return YTD	Total Return 1 Year
Domestic Equities	Dow Jones Industrial Average	9,496	3.97%	12.61%	10.79%	-14.85%
	S&P 500	1,021	3.61%	11.67%	14.97%	-18.25%
	S&P 400 Mid-Cap	655	4.37%	14.19%	23.10%	-18.17%
	Russell 2000	572	2.87%	14.44%	15.75%	-21.27%
International Equities	EAFE Index	1,499	5.49%	14.52%	24.44%	-14.81%
Fixed Income	Barclays Capital Intermediate Gov/Cr	-	0.99%	2.86%	4.04%	6.81%
	Barclays Capital 7 Yr Muni	-	0.58%	1.84%	5.87%	7.01%

Source of Data: Bloomberg

### Market Update

#### Equities:

The momentum in the stock market was broad based in August with most equity indices showing solid returns. International developed markets led global equities with the MSCI EAFE Index +5.5%. Small caps were a slight laggard with the Russell 2000 Index up 2.9% in August. A major reason for the upward momentum was the second quarter earnings. According to ISI, around 73% of companies in the S&P 500 exceeded earnings expectations. Although strong earnings were primarily a result of cost cutting and productivity improvements, sentiment improved as companies beat estimates. Of the ten sectors that comprise the S&P 500, financials experienced the strongest performance, up 12.9%. Financials were followed by industrials, consumer discretionary and technology. Telecom and utilities continued their recent performance of lagging the stock markets, with the telecom sector the only industry reporting negative returns.

Source of Data: Bloomberg

#### Fixed Income:

Bonds generally reported positive performance during August as well. On the taxable side, corporate bonds again led the fixed income market. In August, corporate bonds were up 1.8% and have returned +15.1% so far in 2009. U.S. government bond returns were also positive this month, +0.8%. Year-to-date returns are still negative for government bonds, -1.9% in 2009. Overall, the Barclay's Capital U.S. Intermediate Government/Credit Index was up 1.0% in August, bringing the year-to-date return to 4.0%. In the tax-exempt market, municipal bond returns were muted this month. Longer maturities performed better than short maturities as the yield curve flattened. Low supply and liquidity continued to be a part of the municipal bond market.

Source of Data: Barclay's Capital

### Bottom Line

Recent economic data and companies' earnings have ratified the strong stock market rally since March. Effectively, equities have been forecasting the end of the recession and economic news flow indicate a global recovery. Continued government stimulus and inventory restocking may lead to better than expected growth in the short-term. Key questions relate to the sustainability of any recovery. In particular, will the recovery be sustainable in the absence of accommodative fiscal and monetary stimulus? Given poor labor markets and high unemployment, will U.S. consumer spending recover? Lastly, credit remains tight in financial institutions, in part due to credit and capitalization issues of small and regional banks. Will the lack of financing for small businesses impede the economy?

### Investment Team

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\*These individuals make up Tributary Capital Management. Tributary Capital Management, a subsidiary of First National Bank in Fort Collins, provides sub-investment advisory services to Investment Management & Trust clients.