

Highlights

March 2010 proved to be a great month for risk assets as we saw more and more evidence of broad based, self sustaining domestic economic growth such as positive employment growth, stronger industrial production, increased consumer spending, sentiment, and confidence, dropping household debt service ratios and lower debt to equity ratios for nonfarm, nonfinancial businesses. Corporate profits are definitely good with productivity high.¹ On the other hand, the civilian unemployment rate is still 9.7%, residential construction is still weak and commercial construction is extremely so—construction is typically an area of strong growth following recessions, providing many jobs.² Debt delinquency rates at month end were 10.1% on residential mortgages, 4.6% on consumer loans, and 4.5% on commercial and industrial loans.³ While many economic indicators are improving they are doing so from depressed levels, so the turnaround will definitely take time and has more uncertainty than a traditional economic recovery given some of the employment and deleveraging headwinds.

Source: 1. Bloomberg, 2. ISI, 3. J.P. Morgan Guide to the Markets.

Asset Class	Index	3/31/10	Total Return 1 Month	Total Return 3 Month	Total Return YTD	Total Return 1 Year
Domestic Equities	Dow Jones Industrial Average	10,857	5.31%	4.82%	4.82%	46.93%
	S&P 500	1,169	6.03%	5.39%	5.39%	49.77%
	S&P 400 Mid-Cap	790	7.13%	9.09%	9.09%	64.07%
	Russell 2000	679	8.14%	8.85%	8.85%	62.79%
International Equities	EAFE Index	1,584	6.31%	0.98%	0.98%	55.16%
Fixed Income	Barclays Capital Intermediate Gov/Cr	-	-0.28%	1.54%	1.54%	6.91%
	Barclays Capital 7 Yr Muni	-	-0.80%	1.26%	1.26%	6.49%

Source: Bloomberg, Barclays Capital Indices

Market Update

Equities. With increasingly positive economic reports on both the domestic and international front, U.S. stocks as well as foreign equity rallied in March. Value was king regardless of market cap year to date 2010 although small value triumphed, then mid cap value and growth, small growth, and finally large value and growth.³ Strong performance became more broad based with casinos/gaming, real estate services, REITs, and trucking now showing up among the strongest monthly sectors YTD including manufacturing, banks, electronics, and steel.¹

International markets did bounce back in March as it was believed there was more clarity that Greece would be supported by the EU and/or the IMF, though the poorer performance from January and February still has them lagging the domestic market YTD.¹ Higher inflation fears also surrounded some of the strongest emerging economies, which had tremendous rallies in 2009 with economic growth more evident there earlier than the rest of the world.

Fixed Income. In the taxable fixed income arena, it was a tough month for government assets' total returns while credit was positive. Treasuries were hurt the most as yield spreads to government agencies contracted again, though agency returns did not fare well either. The longer the maturity, the greater the pain as the market ratcheted up inflation expectations given the positive growth news. Even in the mildly positive corporate sector, shorter maturities fared better. Higher risk sectors such as financials had the strongest total return for the month.

Municipal bonds struggled as well this month, though the very long maturities had better performance with 5 to 10 year maturities getting hurt the worst. Fundamentals remain strong for this market with increased municipal demand given higher income tax expectations and reduced supply as more Build America Bonds are issued; therefore, returns were still higher than those of federal government bonds. Revenue bonds outperformed general obligation bonds, specifically in sectors that might be viewed as higher risk such as hospital, housing, and industrial revenue.²

Sources: 1. Bloomberg, 2. Barclays Capital Indices, 3. J.P. Morgan Guide to the Markets

Bottom Line

The tremendous equity rally of the past year has given some people pause. As mentioned, value stocks have outperformed thus far in the recovery—while their price/earnings ratios are close to historical averages, growth stock valuations are still less than their historical averages.² Additionally, as we see further evidence that the recovery is sustaining itself, inflation may begin to actually become a factor with many bond yields at very low levels. As a result, our equity weightings have been on the increase and we do feel the higher weighting makes sense now and in the immediate future.

We believe that corporate productivity at extremely lofty levels and elevated levels of temporary employees on the rolls set the stage for further gains in employment.¹ Higher employment will further sustain the recovery.

Sources: ISI, J.P. Morgan Guide to the Markets

Investment Team

Kurt Spieler, CFA*	Chief Investment Officer
John Harris, CFA*	Senior Portfolio Manager
Christie Hoffer, CFA	Senior Portfolio Manager
David Jordan, CFA*	Senior Portfolio Manager
Chuck Lauber, CFA*	Portfolio Manager
Karen Kjeldgaard	Portfolio Manager
Mark Kerwood	Portfolio Manager / Trader
Stefanie Nelson*	Assistant Portfolio Manager
Erica Blake	Assistant Portfolio Manager
Geri Harris, CFA*	Senior Equity Analyst
Melissa Reinke*	Equity Analyst
Celeste Blackburn, CFA*	Chief Compliance Officer

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