

Highlights

There have been significant signs recently of global economic growth. Corporate profits have jumped, productivity has increased, unemployment claims have decreased over the last few months, and capital goods shipments have increased.¹ In spite of this, however, the rally the market experienced through most of 2009 faced a correction in January as investors grew increasingly frustrated with the lack of visible job growth, and saw huge debt levels in Greece dominate the headlines. Stock markets around the world corrected in January. Commodities, which had also rallied in 2009, declined in January as well, with gold off by 7% and oil down over 8%.² The dollar, however, continued to strengthen.

Source: 1. ISI Group, 2. Bloomberg

Asset Class	Index	1/31/10	Total Return 1 Month	Total Return 3 Month	Total Return YTD	Total Return 1 Year
Domestic Equities	Dow Jones Industrial Average	10,067	-3.32%	4.36%	-3.32%	29.83%
	S&P 500	1,074	-3.60%	4.16%	-3.60%	33.14%
	S&P 400 Mid-Cap	703	-3.21%	7.03%	-3.21%	43.36%
	Russell 2000	602	-3.68%	7.36%	-3.68%	37.84%
International Equities	EAFE Index	1,511	-4.40%	-1.01%	-4.40%	40.35%
Fixed Income	Barclays Capital Intermediate Gov/Cr	-	1.39%	1.25%	1.39%	7.12%
	Barclays Capital 7 Yr Muni	-	0.89%	2.22%	0.89%	4.50%

Source: Bloomberg

Market Update

Equities

The equity market corrected in January, with large and small cap stocks, as represented by the S&P 500 and the Russell 2000, declining by 3.6% and 3.7%, respectively. Mid cap stocks, as represented by the S&P 400 mid-cap index, fared just a little better, but were still off by 3.2%. On a sector basis, only one sector, health care, experienced positive returns, rising by 0.4%. The other nine sectors of the S&P 500 all experienced negative returns, with industrials performing the best and the tech, materials, and telecom sectors performing the worst.

Foreign markets didn't fare any better in January. The developed markets, as represented by the MSCI EAFE Index, corrected by 4.4% while the emerging markets, as represented by the MSCI Emerging Markets Index, corrected by 5.6%.

Fixed Income

After declining in December, the fixed income markets experienced positive performance in January, with prices rising and yields declining on both short-term and long-term bonds.

On the taxable side, the Barclays Capital Intermediate Government/Credit Index rose by 1.4%, with long bonds rallying more than short bonds. On a sector basis, there was very little variation in returns, with corporate bonds just slightly outperforming treasury and agency bonds, while TIPS (Treasury Inflation Protected Securities) performance was in line with corporate bonds.

On the municipal side, the rally was softer, with the Barclays Capital 7-yr Municipal Bond Index rising by 0.9% for the month. Revenue bonds continued to outperform general obligation bonds by a small margin as investors looked for additional yield. Similar to the taxable market, long bonds slightly outperformed short bonds.

Source of Data: Bloomberg

Bottom Line

The stock market has seen a strong rebound since March 2009. Driven by concerns on European debt, the stock market appears vulnerable to a correction. Economic indicators continue to show that the global economy is recovering. The key for the sustainability of the recovery is employment growth. As corporate profits are strong and inventories deplete, most economists expect to see job growth early this year. On the equity side, our portfolios are well diversified with holdings in more economically sensitive industries as well as exposure to more defensive areas. On the fixed income side, with a fairly steep yield curve, we focus on maintaining an intermediate duration, and adding extra yield as opportunities arise.

Investment Team

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