



Highlights

June proved to be a difficult month for the U.S. economy. The expansion is still taking place, but it continues to slow, hampered by concerns over a poor job market, the oil spill in the Gulf, and problems in Europe. In June, the growth rate for U.S. Gross Domestic Product (GDP) for the 1st quarter was revised downward from +3.0% to +2.7%. The growth in consumer spending, which comprises around 70% of the U.S. economy, also was revised down from 3.5% to a 3.0% rate. Consumer confidence declined as well, fueled by concerns over the ongoing poor employment outlook and dissatisfaction with government deficits. Manufacturing, which had been a bright spot for a few months, declined as well, with new orders, inventories, and shipments all declining after several months of consecutive increases. On a brighter note, employment, which has been the primary dark spot in the U.S. economy, improved a little in June, with the unemployment rate declining from 9.7% to 9.5%. The increase in jobs was primarily in manufacturing and temporary employment, but it should be noted that some of the decline in the unemployment rate was due to the fact that more workers fell off the data rolls. If Congress does not extend the unemployment benefits, that process will continue to occur, and the resulting decline to the unemployment rate may be a little distorting.

Source: Bloomberg

Asset Class	Index	6/30/10	Total Return 1 Month	Total Return 3 Month	Total Return YTD	Total Return 1 Year
Domestic Equities	Dow Jones Industrial Average	9,774	-3.43%	-9.36%	-5.00%	18.94%
	S&P 500	1,031	-5.24%	-11.43%	-6.65%	14.43%
	S&P 400 Mid-Cap	712	-6.55%	-9.59%	-1.36%	24.92%
	Russell 2000	609	-7.75%	-9.92%	-1.94%	21.49%
International Equities	EAFE Index	1,348	-0.93%	-13.69%	-12.84%	6.56%
Fixed Income	Barclays Capital Intermediate Gov/Cr	-	1.36%	2.97%	4.56%	8.28%
	Barclays Capital 7 Yr Muni	-	0.29%	2.27%	3.55%	8.14%

Sources: Bloomberg, Barclays Capital Indices

Market Update

Equities. June was a difficult month for the stock market, as the S&P 500 index declined by -5.2%. The market closed June at its lowest price since October 2009. The index declined by -11.4% for the 2nd quarter and is now down -6.6% in 2010. Similar to May, the sell-off was broad in June, with large, mid, and small cap indices all declining. Foreign markets tumbled as well, with the MSCI EAFE index declining by nearly -1% in June and -13% year-to-date. On a sector basis, all 10 major economic sectors in the S&P 500 reported declines in June. Defensive sectors, such as telecommunication services (-0.4%), utilities (-1.0%) health care (-1.9%), and consumer staples (-2.8%), held up slightly better than the market. With continuing concerns about government deficits and the global economic slowdown, economically sensitive sectors such as industrials (-7.1%) and materials (-7.1%) lagged the market. The consumer discretionary sector, which is reflecting concerns regarding the high level of unemployment, declined the most, by -9.8%.

Source: Bloomberg.

Fixed Income. In June, investors continued the flight to safety by purchasing U.S. government bonds and municipal bonds. Yields declined across the curve, particularly on the long end. According to Barclays, U.S. Treasuries were up 1.9% last month and have now increased 5.9% so far in 2010. Credit indices were up even more, with the Barclays U.S. Corporate Bond index up 2.1% for the month, resulting in a year-to-date return of 5.8%. Spreads relative to Treasuries remained relatively stable last month. Municipal bonds also rallied in June, with the Barclays 7-yr municipal bond index up 0.3%. The Index is now up 3.5% year-to-date. For both the taxable and tax-exempt markets, higher quality bonds outperformed lower quality during the month of June.

Source: Barclays Capital Indices

Bottom Line

In summary, the economic recovery continues to be fragile, and we expect slower growth in the second half of 2010. Leading economic indicators have rolled over, which has led to increased concerns of a double-dip recession. Volatility in the market has increased, and we are seeing another flight to safety as investors flock to bonds, driving interest rates down. Longer term, we believe the keys to recovery are in place, but until some of the issues of concern are successfully addressed, it will be slow going.

As a result of the increased economic and market risk, we have reduced our allocation to equities and increased our fixed income position. Although stocks are still cheap compared to bonds, we believe the higher risk outlooks warrants a more conservative asset allocation. In equities, we continue to reduce exposure to economically sensitive areas. In fixed income, the yield curve remains steep by historic standards. We continue to increase duration to obtain higher yields, while maintaining a high allocation to high quality securities.