

Highlights

Let the mixed signals in the markets continue. Both the equity and fixed income markets turned in positive returns in February, a month where winter storms across the country wreaked havoc on various economic reports. Consumer confidence dropped sharply to a pessimistic 46.0 from 56.5 in January. Both expectations and current conditions dropped, leading sentiment surrounding the labor market to deteriorate.¹ The four-week moving average for unemployment claims rose 6,000 to 473,000.² However, durable goods orders jumped a more than expected +3.0% in January after surging a revised +1.9% in December.¹ The market's uneasy nod toward inflation was mixed in the commodities market which posted a +2.6% gain, but Treasury Inflation Protected Securities lost -1.3%.² Mid-Cap stocks continued to shine in February. A combination of their "agility" and large pools of cash have allowed them to capitalize on the recovery.

Source: 1. ISI Group 2. Bloomberg

Asset Class	Index	2/28/10	Total Return 1 Month	Total Return 3 Month	Total Return YTD	Total Return 1 Year
Domestic Equities	Dow Jones Industrial Average	10,325	2.95%	0.48%	-0.47%	50.59%
	S&P 500	1,104	3.10%	1.31%	-0.61%	53.62%
	S&P 400 Mid-Cap	738	5.21%	8.22%	1.83%	67.00%
	Russell 2000	629	4.50%	8.78%	0.66%	63.97%
International Equities	EAFE Index	1,497	-0.65%	-3.63%	-5.01%	55.31%
Fixed Income	Barclays Capital Intermediate Gov/Cr	-	0.43%	0.34%	1.83%	8.23%
	Barclays Capital 7 Yr Muni	-	1.18%	1.51%	2.08%	7.41%

Source: Bloomberg, Barclays Capital Indices

Market Update

Equities: The domestic equity markets were fairly positive through February. The S&P 500 reported a +3.1% gain, almost erasing the loss sustained in January. Year-to-date the S&P remains down -0.6%. The consumer discretionary sector turned in the best return at +5.3%, followed by industrials and materials at +4.6% and +4.2% respectively. Continuing to lag the S&P 500 was telecom which posted a -1.3% loss, only to be outdone by utilities which lost -1.9%.¹

The international markets did not fair as well, ending down -0.7%, adding to their loss in January for a combined -5.0% year-to-date return. The primary cause of this was continued fear around the economic situation in Greece and further into the EU in general. This was evident in the continued strength of the dollar vs. euro, gaining +2.0%.¹

Fixed Income: Taxable fixed income also edged up in February, posting a +0.4% gain. Treasury, agency, and corporate returns all moved in step.² This move was primarily driven by sustained credit spreads and a slight rally in Treasuries. High yield corporate bonds, after suffering a -2.0% drop in the early part of the month on fears surrounding Greece, rallied back to post a +1.9% gain. And even though the dollar was strong, global bond funds experienced a +2.2% gain.¹

Municipal bonds continued their rally which has lasted the better part of the last six months. Returns were indifferent between the general obligation and revenue bonds, both posting +1.0% return.² Revenue bond returns were mixed as hospital, housing, and transport bonds rallied the most, and essential purpose revenue bonds lagged the index.²

Source: 1. Bloomberg 2. Barclays Capital Indices

Bottom Line

We have started to see some very interesting things play out in this recovery. In past recoveries, small-cap stocks have been the winner, however financial restraints have held them back allowing mid-cap to reign. More prevalent in this recovery has also been a greater fear around sovereign risks. Fear over countries such as Greece and city or state governments have caused the markets to tread lightly. This means there will be many opportunities to bump up exposure to more risk based assets as these problems get worked out.

The economy is generally flowing in a positive direction. Economists believe that in 1Q real consumer spending is on track to climb around a +3.0% pace and real GDP should be up around +3.5%.³ But how many bumps will we endure along the way?

3. ISI

Investment Team

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