

Highlights

Securities markets generally rewarded the owners of risky assets with positive returns in the month of May 2009. The return pattern generally extended across and within asset classes. The worst relative returns were concentrated in the safest assets: U.S. Treasury bonds. At first glance the combination of this return pattern and the recent negative economic news appears inconsistent. Further review of the economic data reveals that although still weak, some of the data are not as weak as generally feared. We see this development as a marginal positive within the context of a cautious economic outlook.

Asset Class	Index	5/31/09	Total Return 1 Month	Total Return 3 Month	Total Return YTD	Total Return 1 Year
Domestic Equities	Dow Jones Industrial Average	8,500	4.52%	21.34%	-1.61%	-30.44%
	S&P 500	919	5.59%	25.84%	2.96%	-32.57%
	S&P 400 Mid-Cap	576	2.74%	28.69%	7.80%	-33.50%
	Russell 2000	502	3.00%	29.54%	1.14%	-31.77%
International Equities	EAFE Index	1,317	11.83%	34.29%	8.66%	-36.53%
Fixed Income	2-year USTN	0.92%	0.14%	0.58%	0.33%	5.92%
	10-year USTN	3.46%	-2.71%	-2.89%	-8.58%	8.52%

Source: Bloomberg

Market Update

Equities:

In many ways the stock market's May 2009 returns resembled those of the prior month. The most striking similarity is the breadth of positive returns. All of the regularly reported equity indices displayed above reported positive returns. The index's size, as measured by market capitalization, and geographic location did not matter. The small (Russell 2000), medium (S&P 400 Mid-Cap), and large (S&P 500 and Dow Jones Industrial Average) indices all reported gains: 3.0%, 2.7%, 5.6%, and 4.5% respectively. The international index (EAFE) not only reported a gain as well, it bested the returns of the domestic indices again in May 2009: 11.8%. The gains were also broadly represented across economic sectors. Eight of the ten sectors of the S&P 500 reported gains for the month of May, with the financial sector showing the largest: 13.1%.

Source of Data: Bloomberg

Fixed Income:

The lowlight of the May 2009 credit market returns was the rising yield, falling price, and negative returns for longer-term U.S. Treasury bonds. In the taxable market, the overall Barclay's Capital U.S. Government Credit index reported a 0.8% return for May 2009. U.S. Treasury and agency bonds, shorter-term maturity bonds, and highly rated bonds all detracted from that return. Corporate bonds, longer-term maturities, and moderately rated bonds all contributed to that return. The tax-exempt market exhibited the same general patterns. The overall Barclay's Capital Municipal Bond Index reported a 1.1% return for May 2009. Shorter-term maturity bonds and highly rated bonds detracted from that return. Longer-term maturity bonds and moderately rated bonds contributed to that return.

Source: Barclay's Capital

Bottom Line

There is still no shortage of bad news. Business fixed investment and inventory levels are plummeting. Both residential and non-residential construction spending are also collapsing. The government's stress tests revealed that the financial sector still needs more capital. Bankruptcy filings continue to grow. Standard & Poor's downgraded the U.K.'s sovereign debt rating outlook from stable to negative. And the World Health Organization is studying the possibility of a swine flu pandemic. There are, however, emerging signs that the pace of economic decline may be slowing. The month of May 2009 included Industrial Production, Durable Goods Orders, Non-Farm Payrolls, Initial Jobless Claims, and Consumer Confidence readings that were all weak, but not as weak as feared. We see this as a marginal improvement.

Investment Team

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