Monthly Investment Update

First National Bank
Investment Management & Trust

Highlights

May 2009

In spite of the fact that the U.S. economy contracted more than had been expected in the 1st quarter of the year, declining by 6.1%, the positive performance the stock market experienced in March was followed by an even stronger month in April. As the equity markets continued to respond to worldwide stimulus plans, the S&P 500 experienced its largest monthly gain in 9 years and erased all but 3.5% of its 2009 decline. Nearly two-thirds of companies that have reported since the end of the quarter list 1st quarter earnings that exceeded expectations. To be sure, the economy is not out of the woods yet, and there are still negatives out there, including issues in the auto industry, commercial real estate, and the financial industry. Bond prices rallied in April along with stocks, and commodity prices were mixed.

Asset Class	Index	4/30/09	Total Return 1 Month	Total Return 3 Month	Total Return YTD	Total Return 1 Year
Domestic Equities	Dow Jones Industrial Average	8,168	7.56%	3.05%	-5.86%	-34.18%
	S&P 500	873	9.57%	6.48%	-2.49%	-35.31%
	S&P 400 Mid-Cap	561	14.87%	13.13%	4.93%	-31.85%
	Russell 2000	488	15.46%	10.48%	-1.81%	-30.72%
International Equities	EAFE Index	1,186	12.94%	7.74%	-2.84%	-42.59%
Fixed Income	2-year USTN	0.90%	-0.08%	0.37%	0.19%	5.32%
	10-year USTN	3.12%	-3.41%	-1.54%	-6.04%	9.30%

Source: Bloomberg

Market Update

Equities

The positive stock market performance in April was widespread, and many companies, when reporting 1st quarter earnings results, noted that business may be "stabilizing." For the month, small cap stocks, as represented by the Russell 2000 index, increased by nearly 15.5%, while mid cap stocks, as represented by the S&P 400 mid cap index, increased by 14.9%. The S&P 500, representing large cap stocks, has rebounded by 29% from the March 9th low, and was up 9.6% for the month of April alone. On a sector basis, nearly all ten sectors of the economy were up during the month. Financials and consumer discretionary stocks rebounded the most, with financials up just over 22% and consumer discretionary up 18.5%. Industrials and materials followed close behind, while consumer staples and healthcare lagged behind. Foreign markets were up as well, with developed markets, as measured by the EAFE (Europe, Asia and Far East) index, up by nearly 13% and emerging markets up over 16%.
Source: Bloomberg, UBS

Fixed Income

In the bond markets, performance was mixed for the month of April. The Barclays Capital U.S. Government Credit index was flat for the month, up just .19%, with short-intermediate term bonds providing the upside, and longer bonds down just over 1%. In the corporate market, the Barclays U.S. Corporate index was up by nearly 3.5% for the month as investors looked to the corporate bond market for additional yield over government bonds. Industrial and financial bonds provided most of the upside. Municipal bonds continue to be the strongest performers in the bond market this year, with the Barclays Capital Municipal Bond index up 2% for the month, resulting in a 6.3% increase year-to-date. In contrast to the taxable bond market, long bonds have been the strongest performers in the municipal market this year, with the 10-year bond index up over 5% year-to-date while the 3-year index is up 2.6% year-to-date.
Source: Bloomberg, Barclays Capital

Bottom Line

The length and strength of the stock market rally continues to be somewhat of a surprise to investors, many of whom expected the rally that began in March to be shorter in duration. We still believe that we need to see stronger signs of stable economic growth for the rally to continue, and while there are still many areas that need to see improvement, the "green shoots" of positive economic data continue to appear. The strengthening of the financial system is key to overall economic recovery, and the Public-Private Investment Fund, which is part of the government's plan for banks to sell toxic assets to the private sector, appears to be gaining momentum. Also, while the unemployment rate continues to be high at 8.5% and many firms are freezing wages, initial unemployment claims have been declining.

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
Geri Wandrey, CFA*	Senior Equity Analyst
Celeste Blackburn, CFA*	Chief Compliance Officer
Melissa Reinke*	Equity Analyst
Stefanie Nelson*	Assistant Portfolio Manager
Mark Kerwood	Fixed Income & Equity Trader

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

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