

**May
2009**



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LATEST PERFORMANCE					
	May-09	Y-T-D	1 Year	3 Year	5 Year
EQUITY					
S&P 500	5.59%	2.96%	-32.57%	-8.24%	-1.90%
S&P 400	2.74%	7.80%	-33.50%	-7.72%	0.69%
S&P 600	1.61%	-0.75%	-31.93%	-9.99%	-0.11%
MSCI EAFE	11.83%	8.57%	-36.61%	-7.80%	2.87%
MSCI Emerging Markets	17.09%	37.87%	-34.36%	3.34%	15.13%
FIXED INCOME					
Barclays Aggregate	0.73%	1.33%	5.37%	6.30%	5.02%
Barclays Muni Bond 1-10 Yr	0.22%	3.73%	6.01%	5.34%	4.43%
Barclays High Yield	6.73%	26.80%	-7.78%	1.02%	4.05%
Barclays Global Aggregate	3.57%	1.10%	2.43%	6.26%	5.51%
CSFB Bank Loan	5.70%	22.35%	-11.17%	-2.56%	0.75%
OTHER					
DJ-AIG Commodity	13.00%	6.64%	-41.15%	-8.19%	-0.69%
DJ-Wilshire US REIT	2.57%	-9.98%	-49.63%	-17.25%	-2.01%
S&P-Citi World Property	12.56%	5.46%	-43.11%	-12.85%	1.27%
Red Rocks Domestic LPE	7.78%	7.41%	-59.30%	-26.82%	-11.78%
Red Rocks Global LPE	11.38%	12.92%	-56.74%	-19.04%	-0.49%
HFRI Fund of Funds	3.25%	4.76%	-16.30%	-1.47%	2.59%
3-Month T-Bills	0.01%	0.09%	1.12%	3.37%	3.19%

Returns provided by outside vendor. Innovest is not responsible for accuracy of numbers presented.

Market Recap

Equities

May was an exceptional month for just about every asset class. Domestic stocks had another strong month, and the overall market is now in the black for the year. The S&P 500 Index gained 5.6% and was up 3% for the first five months of the year. Smaller-caps generally lagged larger-caps in May but still posted a gain of 1.6% -- solid, if not spectacular. Year-to-date, there has been a big disparity between growth and value, with the former outperforming the latter by a wide margin across all market capitalizations. Developed international equities had a very strong month, with the MSCI EAFE Index gaining 11.8%, bringing its year-to-date return to +8.6%. The strong showing for foreign stocks was even greater for emerging-markets equities, which gained 17.1% in May to bring its 2009 return to more than +37.9%.

Fixed Income

Investment-grade bonds, as measured by the Barclay's Aggregate Index, gained almost 0.7% in May, while high-yield bonds, as measured by the Barclay's High Yield index, continued their strong run with a 6.7% gain. High-yield is now up 23.5% in 2009. Bank loans, as measured by the CSFB Bank Loan Index, also continued their strong rebound with a gain of 5.7% and are now up 22.4% year-to-date. Municipal bonds eked out a gain of 0.22% and have returned +3.7% this year..

Other Asset Classes

Commodities continued their strong rebound with the Dow Jones/UBS Commodity Index appreciating 13.0% in May on the heels of an increase in oil prices. At the end of the month, oil stood at \$66/bbl, up more 69%

so far in 2009. The REIT market continued its climb from a dismal first quarter. International REITs, as measured by the S&P Developed World Property Index (ex U.S.), posted its biggest gain ever, returning 18.3%. This rebound came on the back of April's third-largest historical monthly gain, and international REITs are now up 14.3% year-to-date. Domestic REITs rebounded as well, returning +2.6%. Listed private equity, the hardest hit of any asset class since the credit crisis began, returned a stellar +11.4%. The stocks of private equity firms have rebounded nearly 62% in the past three months as value-seeking investors have scooped up many of those downtrodden stocks. Finally, hedge funds, as measured by the HFR Fund of Funds Composite Index, continued their steady upward climb posting a gain of 3.3%, the largest monthly increase since February 2000.

Outlook

After strong rallies across the capital market spectrum, the question remains: Are things turning around or are things just less bad? Or to put it another way, are we on the road to recovery, or, in the immortal words of past Fed Chairman Alan Greenspan, is this "irrational exuberance?" The signals remain mixed:

- Manufacturing in April continued to decline. However, the pace of the slowdown was the slowest in seven months, possibly indicating the worst is behind us.
- Home mortgage applications are down; most new applications are for refinancing rather than new first-time home buyers. Continued declines in housing prices and increases in foreclosures may be keeping potential buyers from entering the market "too soon".
- Housing starts continued to fall as homebuilders try to sell off their existing inventory before starting new projects. Less inventory should bode well going forward.
- Retail sales were up in April, but are down year over year. It appears that consumers are choosing to save their tax refunds rather than spend them.
- Unemployment continues to rise, but the pace is slowing. That slowing may change with the bankruptcy of GM. Employers may not be laying

off as many workers, but they are also not hiring any new employees.

- Consumer confidence ticked up again in May, the third straight month and second double-digit gain in row.

The following questions, put forth by Financial Risk Management, seem appropriate given the mixed signals we are currently seeing.

Improved investor sentiment is one thing, but important questions remain around any potential road to recovery for the global economy:

- *How expensive will continued government support of banks and other industries (e.g. auto-makers) prove to be in the long run?*
- *Will government support for companies and industries that should have failed impede economic growth?*
- *Will the weakness of the sovereign balance sheets lead to rating downgrades (as S&P is threatening to the UK), and how will investors react to such moves?*
- *How much will inflation, driven by excess quantitative easing measures, erode asset prices over the medium term?*
- *How quickly will consumers and business return to pre-2008 levels of leverage? How will global growth be affected if they don't?*

How these economic factors ultimately affect capital markets is largely uncertain, and predicting the future path of equity or bond markets from here is difficult. It seems likely that, in the absence of further extreme financial stress, securities markets should continue to exhibit more rational pricing of individual securities over the next few months, but aggregate market levels, particularly in risk seeking assets, are likely to be driven by investor flows.

So the answer to the question posed above: Are things turning around or are things just less bad? It is likely that the jury is still out.