August 2009

UNION INVESTMENT MANAGEMENT GROUP

Monthly Investment Update

Equity markets extended their strong run in August as positive economic data continued to roll in. Economists now forecast third quarter U.S. gross domestic product to post positive numbers, marking the first quarterly GDP expansion since the second quarter of 2008. Aggressive cost cutting and a commitment to slashing inventories has resulted in strong corporate profit growth. The federal "cash for clunkers" program helped grow consumer spending in July and should register a similar effect for August. The economic data and consensus estimates suggest that the worst of the recession is most likely over. A strong recovery, however, may be dependent on a resurgence of the U.S. consumer. Struggling with rising unemployment, tight credit, and stagnant wages, households remain reluctant to spend.

Asset Class	Index	08/31/09	12/31/08	Total Return 1 Month	Total Return YTD
Domestic Equities	S&P 500	1,021	903	3.61%	14.97%
	DJIA	9,496	8,776	3.97%	10.79%
	NASDAQ	2,009	1,577	1.67%	28.29%
	Russell 2000	572	499	2.87%	15.75%
International Equities	EAFE Index	1,499	1,237	5.49%	24.44%
Fixed Income	2-year USTN	0.97%	0.77%	0.47%	0.76%
	10-year USTN	3.40%	2.25%	1.01%	-7.38%

Monthly Market Commentary

Equities:

Stock market returns couldn't match July's numbers, but were impressive nonetheless with all major market indices increasing by at least 1.5%. In fact, the Dow Jones Industrial Average posted its best August performance in nine years and the technology-heavy NASDAQ was up for the sixth consecutive month, it's longest monthly winning streak since 2003. International stocks, depicted by the EAFE Index, bested all others in August, jumping 5.49% and benefitting from relatively strong foreign currencies as the dollar remains weak.

Fixed Income:

Investors continued to be rewarded for accepting credit risk as corporate bonds again outperformed in August. Many areas of the fixed income markets have recovered to levels not seen since the collapse of Lehman Brothers' last September. Short-term government bonds have stayed anchored to a Fed Funds Target Rate range between 0.00% and 0.25%. Despite a tremendous flow of money into the economy, inflation expectations are tempered as markets appear to be anticipating a somewhat prolonged economic recovery.

Bottom Line

Equities:
Despite the continuing rally, equity prices remain reasonable, especially for investors with a long-term investment horizon. In the short-run, however, with more than 90% of the S&P 500 stocks above their 50-day moving averages, the market may be due for a short-term correction. We continue to favor larger-capitalization stocks with globally-geared business lines as we anticipate a lengthy recovery period for U.S. consumer spending.

Fixed Income:
As economic conditions improve, Treasury bonds will likely continue to underperform riskier credits. Credit spreads have dropped significantly over the last year, but remain above historical averages, providing reasonable value in the corporate bond arena. Although currently low, we anticipate inflation may eventually prove problematic as the Fed may struggle to appropriately rein in the money supply as the economy recovers.

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