December 2009

UNION INVESTMENT MANAGEMENT GROUP

Monthly Investment Update

The financial markets returned from the brink of disaster in 2009 and, thanks to unprecedented government support, engineered an extraordinary recovery. Since March, equities and other risky assets have soared, with many investment categories rising well over fifty percent. Measures of economic growth, however, have been more subdued. While most economists agree that an economic recovery is underway, many are wary of its strength and staying power. Unemployment remains high, credit constraints linger, and businesses and households remain cautious. With a slow recovery expected, policymakers now face the prospect of having to unwind their massive stimulus programs in a fragile economic environment. Once the government removes those fiscal and monetary crutches, will the financial markets be able stand on their own two feet? That's the question for 2010.

Asset Class	Index	12/31/09	12/31/08	Total Return 1 Month	Total Return YTD
Domestic Equities	S&P 500	1,115	903	1.93%	26.47%
	DJIA	10,428	8,776	0.95%	22.68%
	NASDAQ	2,269	1,577	5.87%	45.36%
	Russell 2000	625	499	8.05%	27.17%
International Equities	EAFE Index	1,581	1,237	1.46%	32.18%
Fixed Income	2-year USTN	1.14%	0.77%	-0.77%	1.05%
	10-year USTN	3.83%	2.25%	-4.85%	-9.71%

Monthly Market Commentary

Equities:
Despite tumbling for most of the first quarter, all major stock indices posted impressive gains in 2009. After dropping 25.4% to a 12 year low in March, the Dow Jones Industrial Average closed the year with a 22.6% gain, rising 59.3% from the low – its fastest climb since 1933. The NASDAQ composite finished the year up 45.3%, soaring 78.9% above its March bottom. International stocks gained over 32% in 2009, in part due to a weakening U.S. dollar – the fastest rebound in global stock values in 40 years. Small-cap, mid-cap, emerging market, and growth stocks were also big winners in 2009.

Fixed Income:
2009 was witness to a remarkable shift in the fixed income landscape as cash from the sidelines and ultra-safe investments poured into riskier assets. This shift in investor sentiment along with the government's sale of a record-breaking $2.1 trillion of new debt weighed on Treasuries and pushed the spread between short-term and long-term government yields to its widest level ever. On the flip side, prices of corporate bonds, leveraged loans, and mortgage-backed securities shot up to levels not seen since the fall of Lehman Brothers in September of 2008.

Bottom Line

Equities:
On a long-term basis, stocks offer reasonable value at current levels. That said, the sustainability of the current market rebound could be jeopardized if rosy expectations of fourth quarter revenue growth aren't met. With the relatively fragile economic backdrop in mind, we are focused on high quality domestic companies. Additionally, we are concentrating on companies with broad global reach whose exposure to the consumer is limited.

Fixed Income:
As the economy continues to slowly improve, Treasury yields will likely rise and riskier assets will outperform. Relative to historic norms, corporate bonds remain attractive despite a significant jump in prices over the last year. Lastly, we expect inflation to become an issue at some point, as policymakers struggle to strike a balance between growth and inflation on one hand versus unwinding of stimulus programs on the other hand.

Investment Strategy Group

William S. Eastwood, CFA

Daniel E. Frost, CFA

Jonah R. Jones

Mark E. Portz, CFA

Ryan M. Sailer, CFA

Franklin W. Savage, CFA

Thomas R. Sullivan, CFA

Roman K. Windrum, J.D., CFA

Investments Not FDIC Insured, May Lose Value, No Bank Guarantee

UB UNION BANK & TRUST COMPANY®