January 2009

UNION INVESTMENT MANAGEMENT GROUP

Monthly Investment Update

Despite nascent signs of improving credit conditions, global markets remain under pressure as economic conditions deteriorate. In recent weeks credit spreads have decreased and bond issuances have increased. Consumer income dropped in January, although it was not as bad as expected, while demand has plummeted as consumers are saving more and spending less. Furthermore, both consumers and businesses are having problems getting loans. With the unemployment rate rising, GDP shrinking, and worries about deflation, global markets will likely remain volatile until it becomes clearer that the downward spiral is nearing an end.

Asset Class	Index	01/31/09	12/31/08	Total Return 1 Month	Total Return YTD
Domestic Equities	S&P 500	826	903	-8.43%	-8.43%
	DJIA	8,001	8,776	-8.65%	-8.65%
	NASDAQ	1,476	1,577	-6.35%	-6.35%
	Russell 2000	444	499	-11.12%	-11.12%
International Equities	EAFE Index	1,115	1,237	-9.82%	-9.82%
Fixed Income	2-year USTN	0.95%	0.77%	-0.17%	-0.17%
	10-year USTN	2.85%	2.25%	-4.37%	-4.37%

Monthly Market Commentary

Equities: Equity returns in January were nothing short of abysmal. In fact, the decline marked the worst January in U.S. stock market history as December's gains evaporated and markets came close to retesting the November 20th bottom. The best performing index in the month was the tech-heavy NASDAQ which lost about 6.4%, followed by the S&P 500 index which was down over 8%, the MSCI EAFE index fell nearly 10%, and the small-cap Russell 2000 index lagged, losing over 11%. One bright spot was the decline in volatility as compared to recent months, although it remains high compared to historical standards.

Fixed Income: January witnessed a turn-around in the fixed income markets as corporate bonds out-performed Treasuries during the month. Although Treasury yields rose as investors anticipated the looming increase in government debt, corporate spreads decreased as bond market participants sought out the higher yields available from that segment. Government mortgage-backed bonds also saw their spreads to Treasuries decline as the Fed began making direct purchases of these assets. For the month, the 10-year Treasury note declined 4.37%.

Bottom Line

Equities: For long-term investors equity prices appear to be selling at cheap levels if one can accept the current price swings. We expect high volatility and pressure on stocks will remain until there is more clarity in the government's actions and better economic news. It will be difficult to sustain a strong rally until this uncertainty is reduced.

Fixed Income: Although spreads have been reduced we still like investment-grade corporate and government-backed agency bonds due to their relatively-attractive yields. We also like some Treasury Inflation Protected Securities (TIPS) due to their low embedded inflation expectations. U.S. Treasuries remain unattractive due to low yields, however prices may remain relatively stable until investors become less risk averse.

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