July 2009

UNION INVESTMENT MANAGEMENT GROUP

Monthly Investment Update

Investor risk-taking continued on its torrid pace in July on the back of better-than-expected economic data. Second quarter real GDP declined at an annualized rate of 1%, beating consensus estimates and showing marked improvement over the last two quarters that posted declines of over 5%. Depressed housing prices and attractive financing rates spurred an 11% increase in new home sales from May to June. More importantly, for the first time since July of 2006, the Standard & Poor's Case-Shiller Index posted an increase in housing prices. Consensus economic estimates for the rest of the year suggest that the depths of the recession are most likely over. Nevertheless, hopes of a robust recovery phase may not materialize as the U.S. consumer retrenches from years of over consumption, substantial net worth losses, and a weak employment outlook.

Asset Class	Index	07/31/09	12/31/08	Total Return 1 Month	Total Return YTD
Domestic Equities	S&P 500	987	903	7.56%	10.97%
	DJIA	9,172	8,776	8.75%	6.56%
	NASDAQ	1,979	1,577	7.86%	26.18%
	Russell 2000	557	499	9.63%	12.53%
International Equities	EAFE Index	1,425	1,237	9.13%	17.97%
Fixed Income	2-year USTN	1.11%	0.77%	0.17%	0.29%
	10-year USTN	3.48%	2.25%	0.48%	-8.30%

Monthly Market Commentary

Equities:

Stock market returns in July were nothing short of spectacular with all major market indices increasing by at least 7.5%. In fact, the Dow Jones Industrial Average posted its best monthly performance in more than seven years. Year-to-date, the technology-heavy NASDAQ, up over 26%, continues its relative dominance as investors remain attracted to the low debt levels and strong growth profiles of technology shares. International stocks, depicted by the EAFE Index, are also mounting a strong recovery and benefitting from currency appreciation as the dollar continues to weaken.

Fixed Income:

Riskier fixed income investments again did better in July as investors were handsomely compensated for accepting credit risk. Many aspects of the credit markets have recovered to levels before Lehman Brothers' collapse last September. Short-term government bonds remain anchored to a range-bound Fed Funds Target Rate between 0.00% and 0.25%. Inflation expectations are well-contained despite tremendous money supply and deficit spending increases, as markets appear to be anticipating that a lengthy period of anemic consumer spending will keep prices on goods and services in check.

Bottom Line

Equities:

Despite the continuing rally, equity prices remain reasonable, especially for investors with a long-term investment horizon. However, with 80% of stocks already above their 200-day averages, compared with just 1% in early March, 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 period of U.S. consumer retrenchment.

Fixed Income:

As economic conditions continue to improve, we anticipate Treasury bonds will continue to underperform their riskier counterparts. Corporate bonds offer reasonable value with credit spreads still above historical averages, but well off the elevated levels experienced over the last year. Although currently low, we anticipate inflation will eventually prove problematic as the Fed struggles to control its monetary policy in the face of economic growth.

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