June 2009

UNION INVESTMENT MANAGEMENT GROUP

Monthly Investment Update

As financial markets around the globe continued to show signs of stabilization, stocks turned in one of the best quarters in recent memory. Improving conditions in many parts of the credit markets have spurred investor appetite for risky assets and the resultant shift out of U.S. government bonds. Consumer confidence is relatively high, housing numbers appear to be improving, corporate inventories are low, and volatility in the market has dropped to pre-Lehman levels. On the other hand, unemployment is high and rising, budget deficits are soaring, oil is back to $70/barrel, and the U.S. GDP is falling at an annual rate of 5.7%. While government stimulus has reduced stress in financial markets and the fears of a financial meltdown have abated, the focus now turns to the prospect for growth, waiting for clear signs of a broadly improving economy.

Asset Class	Index	06/30/09	12/31/08	Total Return 1 Month	Total Return YTD
Domestic Equities	S&P 500	919	903	0.20%	3.19%
	DJIA	8,447	8,776	-0.40%	-1.97%
	NASDAQ	1,835	1,577	3.47%	16.98%
	Russell 2000	508	499	1.48%	2.64%
International Equities	EAFE Index	1,307	1,237	-0.52%	8.06%
Fixed Income	2-year USTN	1.11%	0.77%	-0.21%	0.12%
	10-year USTN	3.54%	2.25%	-0.17%	-8.74%

Monthly Market Commentary

Equities: June capped off four consecutive months of positive returns for the S&P 500 index. Although the Dow was slightly negative for the month, the second quarter marked its best quarterly performance since the fourth quarter of 2003. The tech-heavy NASDAQ continues to lead the way, though, up 3.47% for the month and pushing its return for the year to nearly 17%. Internationally, stocks were hampered by a falling dollar. The EAFE index which represents developed international markets was down .5% for the month and emerging markets were down over 2%.

Fixed Income: Longer-term Treasuries fell again in June. As flight-to-quality demand waned through the second quarter, the 10-year extended its loss for 2009 to nearly 9%. All this despite support from the Federal Reserve which continues to purchase Treasuries, most recently in the seven to 10 year maturity range. Short-term Treasuries continue to simply hold their value as they remain anchored to the Fed Funds Target Rate which is currently a range of 0.00%—0.25%. By contrast, investment-grade corporate bonds returned nearly 11% for the quarter with high-yield bonds returning 23%. The spread in yield between high-yield corporate bonds and Treasuries narrowed from 17 percentage points to 11. In fact, corporate bonds and asset-backed securities recovered to levels not seen since September of 2008.

Bottom Line

Equities:
The equity market has rallied substantially since the March lows. Stocks have moved closer to fair value, but remain attractive for investors with a longer-term horizon. Although equity market volatility has dropped significantly, it remains elevated on a historic basis. Given the uncertainty over the potential for growth, volatility will likely remain elevated, and the need for tempered optimism warranted.

Fixed Income:
The recent selloff in longer-term Treasuries has restored some balance in the Treasury market. Corporate bond and mortgage-backed security spreads have tightened relative to Treasuries since the beginning of the year but continue to offer reasonable value. In the long-term, Treasuries and corporate bonds alike face the prospect of rising inflation. Shorter-term, we look for the first signs of broad recovery.

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