March 2009

UNION INVESTMENT MANAGEMENT GROUP

Monthly Investment Update

Investor risk-taking increased in March as fears of a systemic collapse abated. Although recent data from retailers and the housing market suggest glimmers of stabilization, the prospect for a near-term economic recovery remains bleak. Two separate international agencies warned that global output will likely fall in 2009 for the first time since World War II. Inflation expectations remain low, with deflation still considered a primary threat, especially for export-dependent economies of developed European and Asian nations. On the home front, housing prices have yet to firm, falling 19% in January compared with a year earlier according to the S&P Case-Shiller Index. Nevertheless, the combination of falling home prices and governmental efforts to lower mortgage rates are starting to increase housing demand.

Asset Class	Index	03/31/09	12/31/08	Total Return 1 Month	Total Return YTD
Domestic Equities	S&P 500	798	903	8.76%	-11.01%
	DJIA	7,609	8,776	7.93%	-12.48%
	NASDAQ	1,529	1,577	11.02%	-2.79%
	Russell 2000	423	499	8.93%	-14.95%
International Equities	EAFE Index	1,056	1,237	6.32%	-13.96%
Fixed Income	2-year USTN	0.80%	0.77%	0.51%	0.26%
	10-year USTN	2.66%	2.25%	3.35%	-2.72%

Monthly Market Commentary

Equities: Equities increased dramatically across all markets in March, a welcome reversal from the brutality investors experienced in January and February. In fact, until the last few days in March, the DJIA was up 21% in less than three weeks, the quickest bear market rally since 1938. However, despite such a positive March, it wasn't enough to prevent stocks from suffering their sixth consecutive losing quarter, with the DJIA posting its worst quarterly performance since 1939. For the quarter, the technology-heavy NASDAQ, down less than 3%, stands in stark contrast to other major indices as investors favored the generally stronger balance sheets of tech companies.

Fixed Income: For the month, direct governmental purchases of Treasury securities helped reverse the upward movement in the 10-Year Treasury rate, resulting in a gain of 3.35%. However, for the quarter, the total return on longer-term Treasuries remained modestly negative as concerns over the magnitude of Treasury spending initiatives linger. Credit spreads remain elevated and approximate levels experienced at the start of the year. Despite such spreads, a surge of new debt was raised over the quarter by higher-quality corporations, a sign that credit markets may be beginning to thaw. Even so, borrowing by many financial institutions remains dependent on governmental support and interest rates for many lower-quality companies are cost prohibitive.

Bottom Line

Equities:

We find equities attractively priced for investors with a longer-term investment horizon. Yet, the current equity market rally may prove to be unsustainable until economic conditions improve and stabilize. Until then, companies that have demonstrated above average growth with the ability to internally fund operations should remain in favor. On a relative basis, we prefer larger globally-based businesses to their smaller domestic consumer-based counterparts.

Fixed Income:

Treasuries remain the most overvalued fixed-income asset class, in our opinion. Nevertheless, Treasury securities are likely to remain a store-of-value as long as economic headwinds persist. We find that government agency bonds, government mortgage-backed securities and investment grade corporate bonds offer attractive risk-adjusted yields as Federal Reserve and Treasury Department efforts to unfreeze credit markets intensify.

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