May 2009

UNION INVESTMENT MANAGEMENT GROUP

Monthly Investment Update

Investors, encouraged by signs of economic improvement, drove equity prices higher and government bond prices lower in May. Despite still dismal readings, increases in consumer confidence, durable goods orders, and existing home sales coupled with government stimulus efforts here and abroad convinced enough investors that reflationary forces are finally taking root. The U.S. dollar continued along its path of orderly depreciation, as investors fled from the safety of short-term U.S. Treasury Bills and into riskier assets. The declining dollar, marching in tandem with seemingly renewed Chinese demand for commodities, sent oil prices to well over $60 per barrel. Nevertheless, economic tumult remains inauspiciously present. Rising unemployment, soaring budget deficits, and a retrenching consumer have many wondering if the positive vibes will last.

Asset Class	Index	05/31/09	12/31/08	Total Return 1 Month	Total Return YTD
Domestic Equities	S&P 500	919	903	5.59%	2.96%
	DJIA	8,500	8,776	4.52%	-1.61%
	NASDAQ	1,774	1,577	3.47%	13.06%
	Russell 2000	492	499	1.08%	-0.74%
International Equities	EAFE Index	1,317	1,237	11.83%	8.66%
Fixed Income	2-year USTN	0.92%	0.77%	0.14%	0.33%
	10-year USTN	3.46%	2.25%	-2.71%	-8.58%

Monthly Market Commentary

Equities: Equity returns in May marked the third consecutive month of positive performance. In fact, March, April, and May denoted the best three-month performance for the blue chip DJIA since 1998. The internationally-based EAFE index, on the back of a weakening dollar, made up the most ground in May posting returns of almost 12%. Year-to-date, the technology-heavy NASDAQ index, up about 13%, continues to lead the way as investors remain attracted to the clean balance sheets and relatively stable growth profiles of such firms.

Fixed Income: Year-to-date returns on short-term Treasuries continued to hold their value and remain anchored to an unchanged Fed Funds Target Rate, which is currently bound between 0.00% and 0.25%. However, longer-term Treasury yields along with mortgage rates experienced a significant rise amid nascent signs of a recovery on the one hand, and concerns about the enormity of the Obama Administration's budget proposals and its future effect on governmental borrowing costs and inflation expectations on the other. Positively, corporate bond spreads continued to narrow, which helped contain borrowing costs in the face of rising Treasury yields. Government officials indicated a willingness to increase quantitative easing efforts to ensure private sector borrowing costs remain accommodative.

Bottom Line

Equities:
Despite the recent market rally, equities remain attractively priced for investors with a longer-term investment horizon. Recent improvements in consumer confidence, corporate borrowing rates and commodity prices are supportive of current equity market prices in general. Nevertheless, volatility is likely to remain elevated given the persistence of weak economic activity and a retrenching consumer.

Fixed Income:
The significant selloff in longer-dated Treasuries has restored some semblance of value after risk adverse investors pushed rates to record lows earlier this year. Corporate bond and mortgage-backed security spreads have tightened relative to Treasuries since the beginning of the year but continue to offer reasonable value. Deflationary overtones and governmental support should sustain rates over the near term.

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