

Although the worst recession since World War II appears to be behind us, economic growth estimates suggest the recovery will be modest by historical standards. Third quarter real GDP growth was recently revised downward from 3.5% to 2.8% as consumer spending, commercial construction, international trade, and inventory levels all came in weaker than previously expected. The unemployment rate, hovering near 10%, is expected to stay high for quite some time as the economy continues to shed jobs. The housing market appears to be improving but will likely remain hampered by increasing mortgage delinquencies and foreclosures. In general, banks are either unable or unwilling to lend as they brace for the effects of a bleak commercial real estate market while concerns over the U.S. consumer's ability to drive consumption in an economic recovery persist.

Monthly Investment Update

UNION INVESTMENT MANAGEMENT GROUP

Asset Class	Index	11/30/09	12/31/08	Total Return 1 Month	Total Return YTD
Domestic Equities	S&P 500	1,096	903	6.00%	24.07%
	DJIA	10,345	8,776	6.92%	21.52%
	NASDAQ	2,145	1,577	5.05%	37.30%
	Russell 2000	580	499	3.14%	17.70%
International Equities	EAFE Index	1,560	1,237	2.06%	30.25%
Fixed Income	2-year USTN	0.66%	0.77%	0.57%	1.84%
	10-year USTN	3.20%	2.25%	1.79%	-5.10%

Monthly Market Commentary

Equities:

Stocks reached their highest levels in over a year, before an unfolding debt moratorium in Dubai gave traders an excuse to book profits. Nevertheless, equity markets in November posted impressive returns, with the DJIA and S&P 500 posting their biggest November gains since 2001. Year-to-date, the technology-heavy NASDAQ, up over 37%, continues to lead the way. Internationally, the EAFE Index, up over 30%, has also posted strong results on a weakening dollar. The small-cap Russell 2000, although up almost 18%, is lagging the major indices, as many smaller companies remain directly tied to a retrenching consumer.

Fixed Income:

Treasuries rallied in late November in a spark of safe-haven buying emanating from the Dubai credit crunch. For the year though, Treasuries have generally underperformed as investors have flocked to the attractive returns of riskier bonds. In fact, the riskiest of corporate bonds have returned over 50% year-to-date, according to the widely-followed Merrill Lynch U.S. High Yield Master II Index. Despite such lofty returns, investors remain enticed by the fact that high-yield interest rate spreads relative to Treasuries are still above historical averages.

Bottom Line

Equities:

Equity prices offer reasonable value, especially from a long-term perspective. However, the sustainability of the current rally may be in doubt if corporations are not able to meet relatively optimistic fourth quarter revenue growth expectations. Given the level of economic uncertainty, we are finding relative value in high quality domestic companies and remain focused on globally-gearred companies exhibiting limited exposure to the consumer.

Fixed Income:

Treasury yields will likely rise and continue to underperform riskier assets as the economic backdrop improves. Corporate bonds remain attractive on a historic basis despite spreads having dropped significantly over the last year. Although it could be months down the road, we expect the prospect of inflation to be an issue as the Fed struggles to strike a balance between growth and inflation while reining in the money supply.

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