October 2009

UNION INVESTMENT MANAGEMENT GROUP

Monthly Investment Update

The U.S. economy grew at a rate of 3.5% in the third quarter, its first expansion in over a year. The worst recession since World War II appears to be behind us, thanks to unprecedented government stimuli. Spending on cars ("cash for clunkers") and home building (first-time homebuyer's credit) accounted for some of the largest components of GDP growth in the quarter. With so much of consumers' recent spending driven by temporary government programs, with unemployment high and continuing to grow, and with credit remaining tight, further economic recovery is expected to be slow. Nonetheless, the positive GDP report pushed the Dow to its biggest one-day point gain since July, enough to help it finish the month in the black. The challenge ahead will be for policymakers to unwind their massive stimulus programs without harming a growing, but fragile economy.

Asset Class	Index	10/31/09	12/31/08	Total Return 1 Month	Total Return YTD
Domestic Equities	S&P 500	1,036	903	-1.86%	17.05%
	DJIA	9,713	8,776	0.14%	13.65%
	NASDAQ	2,045	1,577	-3.61%	30.70%
	Russell 2000	563	499	-6.79%	14.12%
International Equities	EAFE Index	1,533	1,237	-1.24%	27.62%
Fixed Income	2-year USTN	0.89%	0.77%	0.29%	1.26%
	10-year USTN	3.38%	2.25%	-0.42%	-6.78%

Monthly Market Commentary

Equities:

Most equity markets took a breather in October after a spectacular run. The Dow Jones Industrial Average was the only major index to end the month in positive territory. Small-cap stocks, as represented by the Russell 2000, turned in the worst performance of the month dropping 6.79%. The technology-heavy NASDAQ gave back nearly 4% in October, but is still up over 30% for the year. Financials were the weakest S&P sector, falling nearly 6%. All major equity indices remain up at least 13% year-to-date.

Fixed Income:

Demand for shorter-term Treasuries grew slightly in October, pushing yields down for all maturities under five years. On the flip side, yields on all maturities over five years rose, further widening the spread between short & long-term rates. Supply pressures in the Treasury market will continue to build as the Fed's $300 billion purchase program comes to an end. The central bank had been purchasing about 1/3 of all Treasuries sold. Yields are likely to stay in their recent range, however, until investors see that the foundation for a sustainable economic recovery is in place.

Bottom Line

Equities:

Equity prices continue to look attractive from a long-term perspective. However, shorter-term, equity markets are likely to be volatile as investors wait for the first signs of sustainable recovery. After months of cost-cutting driving corporate earnings, investors will be looking for profit growth as a result of increasing revenue. When the Fed begins to unwind its support, sustained revenue growth may become even more difficult to produce.

Fixed Income:

Treasury yields will likely rise and underperform riskier assets as the economic backdrop improves. Corporate bonds continue to 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.

Portfolio Managers

- William S. Eastwood, CFA
- Daniel E. Frost, CFA
- Jon C. Gross, CFA
- Jonah R. Jones
- Mark E. Portz, CFA
- Ryan M. Sailer, CFA
- Franklin W. Savage, CFA
- Thomas R. Sullivan, CFA
- Roman K. Windrum, J.D., CFA

Investments Not FDIC Insured, May Lose Value, No Bank Guarantee