September 2009

Monthly Investment Update

UNION INVESTMENT MANAGEMENT GROUP

Investors continued to bid up riskier assets on expectations of improving economic conditions. Second quarter real GDP was revised upward to a 0.7% annual rate of decline, much better than the 6.4% annual rate of decline realized in the first quarter. Most economists are projecting positive third quarter GDP growth between 3% and 4% as businesses spend to replace depleted inventories and governmental stimulus measures help offset weak consumer demand. Nevertheless, economic conditions remain tumultuous. Unemployment may exceed 10% by the end of the year as the economy continues to shed jobs. Future growth is likely to be significantly tempered as financial institutions remain unable or unwilling to increase lending efforts, and consumers continue the painful process of reducing household debt to more manageable levels.

Asset Class	Index	09/30/09	12/31/08	Total Return 1 Month	Total Return YTD
Domestic Equities	S&P 500	1,057	903	3.73%	19.26%
	DJIA	9,712	8,776	2.43%	13.49%
	NASDAQ	2,122	1,577	5.69%	35.59%
	Russell 2000	604	499	5.77%	22.43%
International Equities	EAFE Index	1,553	1,237	3.85%	29.23%
Fixed Income	2-year USTN	0.95%	0.77%	0.22%	0.97%
	10-year USTN	3.31%	2.25%	1.07%	-6.39%

Monthly Market Commentary

Equities:

Equity markets persisted in defying bearish sentiment, with most markets ending September very near their respective highs for the year. Since their March lows, stocks have responded well as corporate profits have come in above reduced expectations, largely due to cost-cutting initiatives. The technology-heavy NASDAQ, up over 35% for the year, continues its dominance. The blue-chip DJIA trails the major indices, but is still up a respectable 13.5%. In fact, the DJIA was up 15% in the third quarter alone, marking its biggest quarterly gain since 1998 and its best third quarter since 1939.

Fixed Income:

As the Fed left its Fed Funds target rate unchanged, credit markets continued their recovery. Investor desire for risk-taking is currently outweighing concerns over the economy. Treasury markets also benefited from improved conditions as strong investor demand resulted in a rally across the maturity spectrum. Fed policy remains supportive of bond prices through its direct purchase of government agency and mortgage-backed securities. Inflation expectations are currently well contained with the forecast for weak economic activity trumping concerns over massive money supply increases.

Bottom Line

Equities:

Although equity prices remain reasonable from a long-term perspective, equities markets are likely to exhibit significant volatility over the near term as investors begin to question the sustainability of the current rally. Corporate profit growth will likely need to be driven by revenue growth (not just cost-cutting) in order to meet earnings expectations. Sustainable revenue growth may be difficult to achieve as the Fed inevitably peels back its layers of support.

Fixed Income:

As economic conditions improve, Treasury bonds will likely continue to underperform riskier credits. Credit spreads have dropped significantly over the last year, but remain above historical averages, providing reasonable value in the corporate bond arena. Although currently low, we anticipate inflation may eventually prove problematic as the Fed may struggle to appropriately rein in the money supply as the economy recovers.

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

UNION BANK & TRUST COMPANY®