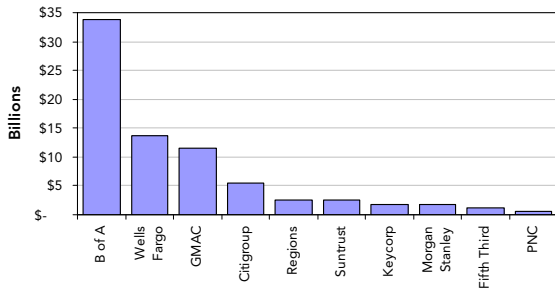


# Economic Review

Old tensions arose in May as several Asian countries challenged the balance of power in the world. North Korea launched missiles and exploded its second atomic bomb, Iran continued its march toward a nuclear weapon, and Taliban forces in Pakistan launched an offensive to overthrow the controlling government. The U.S. mulled sending military forces into Pakistan to help defeat the Taliban uprising. Several states faced grim economic choices, highlighted by the rejection of higher taxes without meaningful spending cuts in California. Without concessions from public employee health and retirement plans and curbs in healthcare spending, the state, along with many others, face untenable burdens in the near future. Municipal layoffs are expected to surge in the fall as budgets are passed and the realities of falling tax revenues set in. The spiraling debtloads did not go unnoticed, as Standard and Poor's put Britain's sovereign debt on a negative watch, and interest rates in the U.S. surged as the Treasury had trouble selling massive amounts of bonds at low interest rates.

## Stress Tests Reveal Banks' Capital Needs

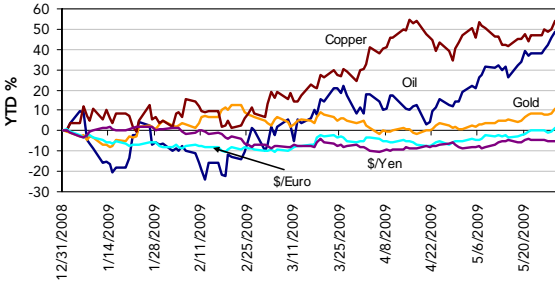


Source: Federal Reserve

The Federal Reserve concluded that ten of the nineteen largest banks in the U.S. needed to raise an additional \$75 billion in capital in order to remain solvent in an extended economic downturn. The bulk of the deficiencies were accrued to mortgage, credit card, and auto loan securities, as well as trading and counterparty risks. Bank of America (\$33.9B), Wells Fargo (\$13.7B), GMAC (\$11.5B), and Citigroup (\$5.5B) were found to be the most deficient in capital reserves. The banks responded by raising capital through equity and debt sales, which were favorably received in the markets.

The Treasury announced it will allow payback of TARP money, beginning in June, for a select number of banks that pass all the financial requirements. JP Morgan Chase and Goldman Sachs are widely expected to be the first banks allowed to repay TARP funds and ease the government control that came along with accepting the TARP monies.

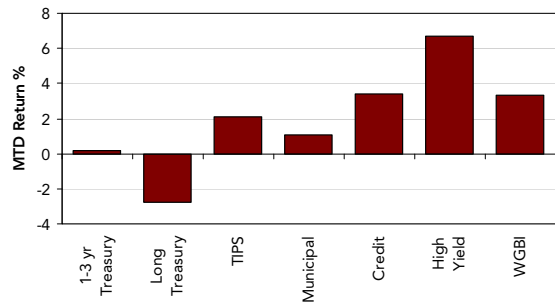
## Commodity Prices Rise, Dollar Falls



Source: Bloomberg

Congress laid the initial grounds for its healthcare reform plan. Debate is expected to take place the rest of the year, although the Senate threatened to suspend procedural rules to protect a fast-track vote from potential filibusters. The ramifications of healthcare reform loom large, with plans ranging from a government run plan co-existing with the current private insurance system, all the way to a Medicare-type plan for all citizens. Supporters of the plans praised the expansion of coverage. Detractors highlighted the potential costs, especially when the national debt is expected to double over the next decade, and lack of assurance that doctors and hospitals could deliver world-class care.

## Bonds Rise, Long Treasuries Fall



Source: Barclays, Citigroup

General Motors prepared for bankruptcy as negotiations with bondholders proved fruitless. GM expects a quick exit from bankruptcy, and would likely emerge with the U.S. government as the majority shareholder. Details would likely include forgiving the billions the government has already given to the company, as well as the extension of billions more in loans. The Chrysler bankruptcy allowed it to forego repayment of \$7 billion in loans from taxpayers. GM and Chrysler announced a combined 1,889 dealer closings as they looked to cut costs.

President Obama signed into law new restrictions on credit card companies limiting practices that led to high charges on cardholders. Credit card companies rebutted by stating that the laws will limit credit availability, although the companies themselves trimmed credit limits by billions over the past year.

## Market Returns

As of May 31, 2009

	May	3 Months	YTD
S&P 500	5.6%	25.8%	3.0%
Russell 1000 Value	6.2%	27.6%	-2.2%
Russell 1000 Growth	5.0%	25.3%	10.3%
Russell 2000	3.0%	29.5%	1.1%
MSCI EAFE	11.8%	34.1%	8.6%
Barclays Agg	0.7%	2.6%	1.3%
3-Month T-Bills	0.0%	0.1%	0.1%

Equity markets continued to move higher in May, building on the rally that began on March 10. An easing of bad news and a brighter outlook helped stocks to a third straight monthly gain. Bond markets fared differently, as Treasury bonds lost ground as investors grew wary of growing supply. Riskier bonds gained in price as recovery prospects at banks grew stronger. Commodities were generally higher in price as the dollar fell from its recent highs. The prospect of impending inflation pushed investors to seek areas of protection against the erosion of the dollar.