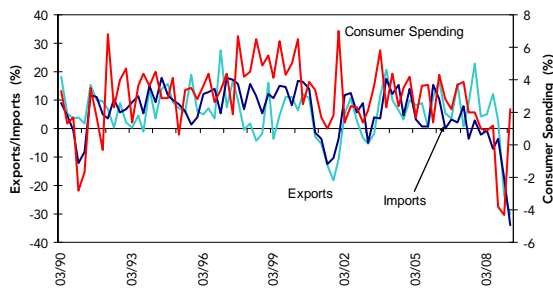


# Economic Review

April saw an increase in troubles brought to American borders and global interests. The first ship in over 200 years, flying under the U.S. flag, was taken control of by pirates off the coast of Somalia. A swift military response freed the ship and crew. Increased international patrols aimed at curtailing piracy in the region vital to world trade were met with mixed results, as some nations chose not to detain or prosecute perpetrators of the crimes. An outbreak of swine flu, which originated in central Mexico, prompted travel restrictions and other protectionist measures to be implemented, as health officials scrambled to contain the outbreak. A war between drug cartels in northern Mexico continued to terrorize citizens of the region, and spread violence into U.S. border states. The President sent several hundred law enforcement agents to border states, and aimed to cut illicit drug demand in the U.S., while Mexican soldiers patrolled border cities. The fighting has cost the region large amounts of money, as companies delay decisions to locate new factories and production in the area, out of concerns for safety.

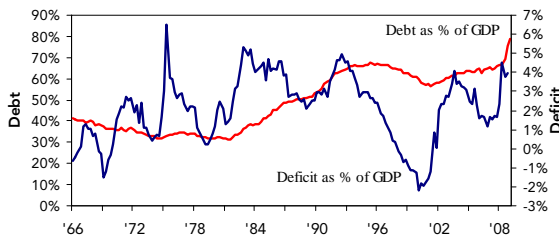
## Q1 Exports/Imports Fall, Consumers Spend More



Source: Bureau of Economic Analysis  
Annual rates of change

First quarter growth in the U.S. was nearly as bad as the fourth quarter as GDP fell at a 6.1% rate. Detractors from growth were inventory drawdown, construction, exports, and a surprising fall in government consumption. Inventories were lower for a sixth consecutive quarter, reflecting the uncertain outlook many businesses have for growth. Home construction fell for the thirteenth consecutive quarter, and stood at less than half its peak value in 2005. The fall in exports represented growing weakness amongst trading partners, reflecting decreases in trade of food, materials, and industrial goods. Government investment is expected to rise as infrastructure projects begin in the second quarter. Bucking the negative trend was an upturn in consumer spending on durable goods and clothing.

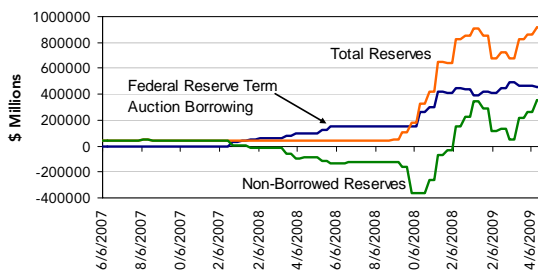
## Debt and Deficit as % of GDP



Sources: Bureau of Economic Analysis; Bloomberg

On the heels of massive government deficit spending in early 2009 and expected tax increases in 2010, citizens across the country organized protests against the fiscal agenda, which is expected to add \$10 trillion to the federal debt over the next decade.

## Bank Reserves Highest in History



Sources: Federal Reserve

The Federal Reserve conducted stress tests on the nineteen largest domestic banks. The tests aimed to determine if adequate capitalization was in place in the event economic conditions worsen in 2009 and 2010. Parameters included worst-case scenario results of -3.3% GDP in 2009, unemployment reaching 10.3% in 2010, and housing prices falling 22% in 2009. Six or more banks will likely be cited as needing to raise additional capital, including Citibank and Bank of America.

## Market Returns

As of April 30, 2009

	April	3 Months	YTD
S&P 500	9.6%	6.5%	-2.5%
Russell 1000 Value	10.7%	4.1%	-7.9%
Russell 1000 Growth	9.6%	10.4%	5.1%
Russell 2000	15.5%	10.5%	-1.8%
MSCI EAFE	12.8%	7.7%	-2.9%
Barclays Agg	0.5%	1.5%	0.6%
3-Month T-Bills	0.0%	0.1%	0.1%

The EPA extended its power as it announced plans to place strict limits on carbon dioxide emissions, acting on the April 2007 Supreme Court decision granting the department such authority. If implemented, electricity rates would rise substantially, as the U.S. does not have the current capacity or authorized plans to replace the multitude of coal burning power plants. President Obama continued to push for cap and trade legislation, which would highly tax most forms of energy currently in widespread use.

A diminished check and balance on federal power became one vote closer to reality as Pennsylvania Senator Arlen Specter changed parties and declared himself a Democrat. The move gives the party a 59-40 majority in the Senate, one vote away from a filibuster-proof Congress. The Minnesota Senate race between Norm Coleman and Al Franken remains in the courts, where the race will likely be decided along the parameters used in Bush v Gore (2000), namely the equal protection clause of the Constitution.

General Motors outlined its plans to escape bankruptcy. The bondholders, unions, and federal government would all receive equity stakes in return for forgiving billions in debt under the plan. Approval by all parties is doubtful, and may result in a bankruptcy declaration in the coming months. Chrysler was in talks with Italian automaker Fiat, creditors, and the UAW to sell the company before it was forced into bankruptcy.