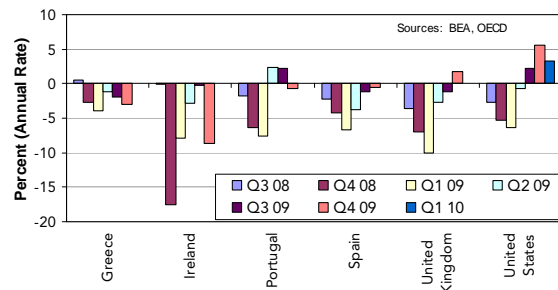


# Economic Review

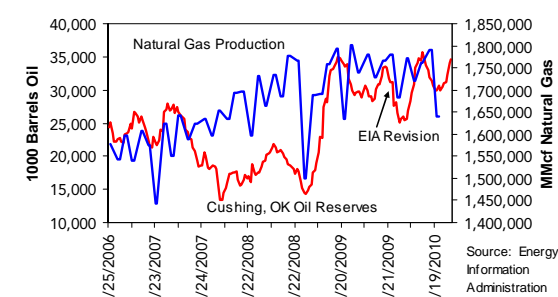
Debt problems in Greece widened in April as European leaders and the IMF debated whether to provide over \$100 billion during the next three years to prevent a default. Spain and Portugal were not immune from scrutiny. Following a Standard and Poor's downgrade of Greek debt to junk status, Spain and Portugal both saw their credit ratings lowered. European leaders had previously warned rating agencies about lowering credit ratings, arguing that they would end up costing the region more in borrowing costs. Spain faces particular troubles as its unemployment rate passed 20%, and its fiscal policies of the past decade relied heavily on borrowing to finance infrastructure projects such as massive investments in solar power. Russia initiated its first international debt sale since its 1998 default. Investor appetite for emerging market debt has soared as many developed countries appear over-leveraged and emerging market growth prospects are viewed more favorably. However, the fates of emerging market countries remain intertwined with their developed counterparts.

## U.S. and European GDP



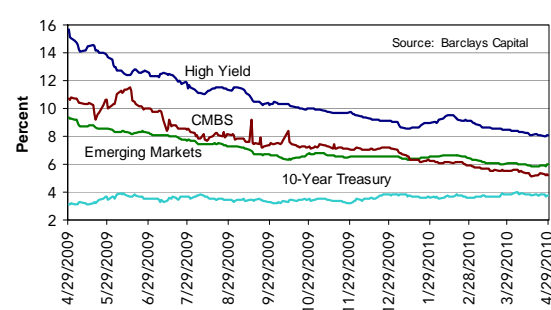
U.S. GDP expanded at a 3.2% rate in the first quarter, marking the third consecutive quarter of growth. Inventories grew in real terms for the first time since Q4 2007, adding 1.6% to GDP. Consumers continued to bolster the rebound. With private employment stabilizing, consumers have become more certain about their employment outlooks, and have begun to make up for spending that was curtailed since 2008. Rising fuel prices were a drag on the economy, as was construction. Residential construction is likely bottoming out, while commercial and public construction spending turned more negative. As the federal stimulus winds down, state and local governments have received fewer emergency grants. The contraction in their spending levels trimmed 0.5% off of the quarter's GDP. The danger of the stimulus spending is that its absence can have a significantly negative impact on growth, and is likely to dampen GDP in the coming years.

## Oil Reserves and Natural Gas Production



Declining real estate and income tax revenues are setting the stage for showdowns with public-sector unions over escalating pay and benefit costs, which outpace many private-sector counterparts. Voters are bracing for a slew of referendums in November regarding spending and tax measures. Education funding and pensions are the highest profile areas of contention, as public sentiment sways towards cost containment over additional taxes.

## Bond Yields



Goldman Sachs was accused by the SEC of fraud after details of a collateralized debt obligation (CDO), Abacus 2007-AC1, were examined. The charges state that Goldman allowed hedge fund manager Paulson & Co. to influence the composition of a security that had a high likelihood of defaulting. The charges allege that Paulson & Co. was looking to create a vehicle to short the subprime mortgage market, and Abacus was the mechanism to achieve this. Paulson & Co. associates were allegedly involved in selecting some of the reference residential mortgage-backed securities for inclusion in the CDO. Goldman then sold Abacus to buyers without disclosing Paulson's input into the CDO construction. The outcome of the accusations remain undetermined at this time.

## Market Returns

	As of April 30, 2010		
	April	3 Months	1 Year
S&P 500	1.6%	11.0%	38.9%
Russell 1000 Value	2.6%	12.7%	42.3%
Russell 1000 Growth	1.1%	10.6%	38.2%
Russell 2000	5.7%	19.4%	49.0%
MSCI EAFE	-1.8%	3.6%	34.4%
Emerging Markets	1.2%	9.8%	57.6%
Barclays Agg	1.0%	1.3%	8.3%
3-Month T-Bills	0.0%	0.0%	0.2%

The Energy Information Administration admitted to inconsistencies in its reporting of crude oil inventories and natural gas production. The revisions amounted to a nearly 10% drop in Cushing, OK crude oil reserves, while also wrongly estimating the daily production of natural gas. The administration blamed outdated methods and systems for its revisions.

A volcano eruption in Iceland shut down air travel across northern Europe, costing airlines nearly \$2 billion in lost revenues. An oil rig explosion in the Gulf of Mexico unleashed vast amounts of crude oil close to the Louisiana coastline. The oil release is likely to have negative implications for the push to increase offshore drilling.