



Second Quarter 2009 Market Summary

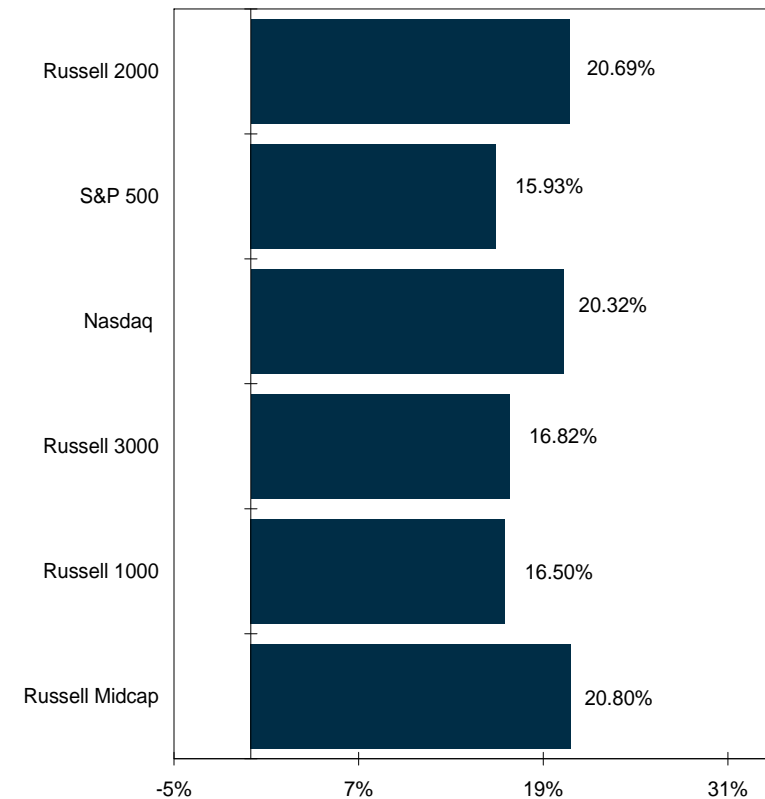
The Economy

Investors were relieved to see moderate signs of stabilization in the second quarter after experiencing precipitous declines during the previous several quarters. After a drop in the first quarter's economic output (revised GDP was announced at -5.5%), the second quarter witnessed somewhat more upbeat economic news, and signals of improving credit conditions.

Apprehension about deficit spending, the credit rating of the United States and Fed forecasts served as a reminder that a turnaround in the economy was not going to come quickly and easily. Investors looked to the previously implemented economic stimulus package, and numerous government-backed programs, to take hold and further stabilize the financial system. Nevertheless, there was still concern that the downside risks to growth would be the dominant factors in policymakers' decisions over the near term.

Economic indicators were mixed during the quarter. After rising for two consecutive months, U.S. retail sales fell by 1.1% in March and then by 0.4% in April, putting a damper on hopes that an increase in consumer spending would lead to a quicker recovery. Reversing this trend, the May retail sales figure registered a positive 0.5%, though much of the gain was attributed to non-discretionary spending. It was very evident that consumers will continue to face strong headwinds in the near term, as job losses continue and credit conditions tighten. This will place continued pressure on consumption through the second half of 2009.

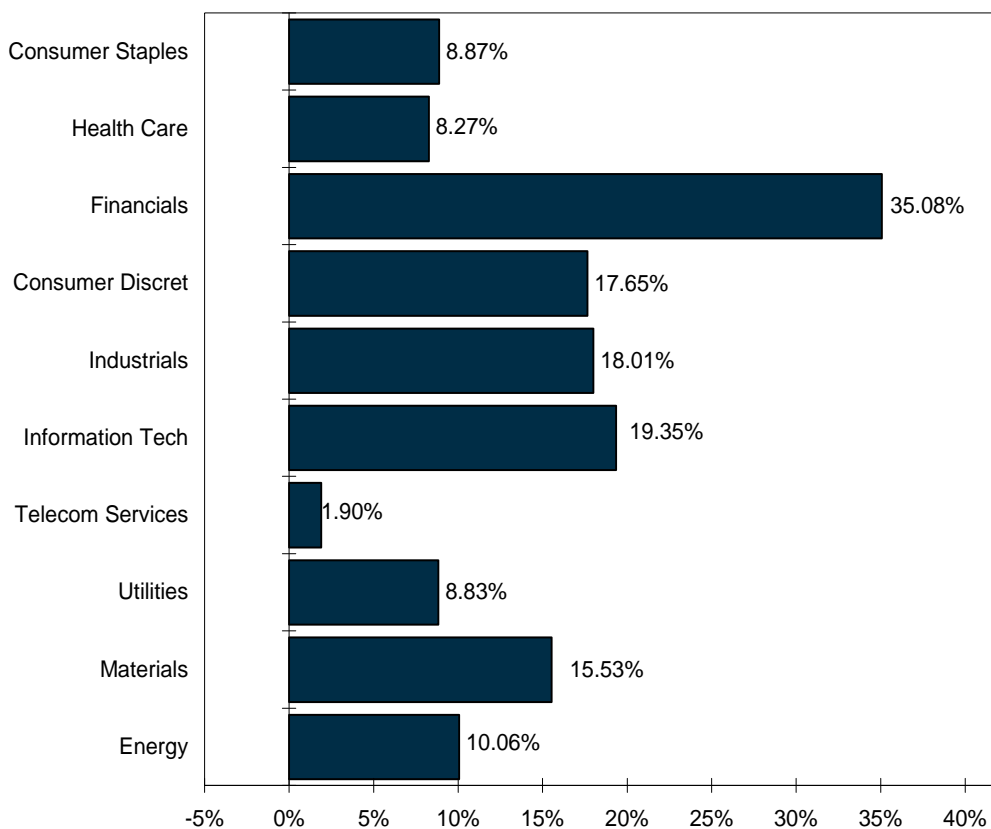
Broad Market Index Returns
Second Quarter 2009



Source: Russell/Bloomberg

U.S. Equity Market Returns by Major Sector

(Securities in S&P 500, 2nd Quarter 2009)



Source: Standard&Poor's

Employment numbers were highly scrutinized as the number of Americans out of work continued to rise, though at a moderating rate. The April employment report showed a loss of 539,000 jobs, causing the unemployment rate to climb from 8.5% to 8.9%. During the following month, May's report recorded a loss of 345,000 jobs, the smallest decline during the past eight months. This "less bad" number still pushed the unemployment rate higher, rising from 9.2% to 9.4%. Job losses have remained at significant levels during the quarter, and have registered their highest levels since the fall of 1983.

The housing market has generally been considered to be at the epicenter of the financial crisis, and it continued its downward trend. REIT's continued to struggle with distressed property values, though they rallied sharply in April. There was evidence to suggest that the housing market was getting close in its search for a bottom as April's Case-Shiller Home Price Index¹ (covering 20 major U.S. cities) slowed for the first time since 2007.

The National Association of Homebuilders (NAHB) Housing Market Index² improved from 9 to 14 for the month of April, reaching the highest level since the previous October. However, the last report of the quarter missed expectations, with the index falling from 16 to 15, as rising mortgage rates and foreclosures continued to plague the housing market.

There was some assurance to be found for the consumer during the past three months. Consumer confidence remained on the upswing, as the May Conference Board Consumer Confidence Index³ came in higher than expected at 54.8, versus expectations of 43.0. May marked the second consecutive month in which the reading improved nearly 15 points, although the index for June retreated somewhat to 49.3.

Other reassurance could be found in the financial sector when news surfaced that companies such as Goldman Sachs, JPMorgan Chase and American Express would attempt to repay the billions borrowed in TARP funding with the hope of escaping TARP restrictions imposed on recipients of the funding. The financial sector of the S&P 500 Index finished up 35.1% for the quarter.

The Federal Reserve continued its purchase of mortgage-backed securities at a steady rate. In addition, on April 29th, the Fed voted unanimously to keep the target federal funds rate at near zero percent, indicating a belief that limited inflationary pressures remain contained. The Fed's decision foreshadowed the Core CPI report for May, which came in at a modest 0.1%.

Fed officials restated their intent to keep rates low for an extended period of time, in addition to continuing their purchase of mortgage-related and Treasury securities with the goal of supporting credit markets. Minutes from April's Federal Open Market Committee (FOMC) meeting showed the Fed had become less optimistic about a return to economic growth as they lowered their GDP estimates through 2011 and increased their unemployment expectations.

The Fed was scheduled to release results concerning the bank stress tests on May 4th. However, debates between the banks and regulators as to the nature of the disclosures forced a delay. The results determined that 19 of the largest banks would experience an estimated \$600 billion in losses, while ten of the banks would need to raise additional capital through the issuance of common equity. Despite the news, bank stocks continued to rise with Wells Fargo and Morgan Stanley being the first to issue stock, and raise new capital. The increase in bank stocks, coupled with the 3-month LIBOR⁴ reaching a new record low, was interpreted as an indication of stabilization in the credit markets.

Headline news throughout the quarter included stories such as the swine flu outbreak as well as the filing for bankruptcy by Chrysler and General Motors. Chrysler filed for bankruptcy protection on April 30th after failing to reach a deal with secured lenders to cut its debt. The company hoped to emerge from their financial troubles with \$10 billion of government aid, and a merger with the Italian automaker Fiat.

In a similar manner, GM filed for bankruptcy protection on June 1st as part of the Obama administration's plan of seeking to restructure the company to a more manageable size, and give a majority ownership stake to the federal government. The decision marked the largest industrial bankruptcy filing in U.S. history. Despite GM's announcement, the S&P finished the week up 2.3% as the news was widely expected, and was offset by better than expected economic data.

On Wednesday June 16th, President Obama detailed a list of proposals designed to give the government more involvement in private markets in the hopes of preventing the type of risk-taking behavior which spurred the current economic crisis. The plan proposes an overhaul in regulatory processes involving the U.S. financial system, and methods for governing large financial institutions.

Financial markets were mixed as the second quarter drew to a close. The Federal Open Market Committee (FOMC) minutes released on June 24th contained some slight changes to the economic outlook, but no changes to actual policy. Markets closed relatively unchanged, based on the Fed's observations such as "conditions in financial markets have generally improved" and that the rate of economic decline was "slowing." The "abating and repulsive" second quarter of 2009 came to a close gingerly. No clear direction for economic activity has emerged and there continues to be two opposing opinions. On the one hand, there are those taking comfort in the continued indications of "green shoots" (signals of recovery during an economic downturn) sprouting up throughout the economic landscape. These optimists are challenged by those on the other side of the fence who acknowledge that there has been stabilization since the first quarter, but nevertheless require further signs of progress before acknowledging that the economy is on a clear path to recovery.

Interest Rates

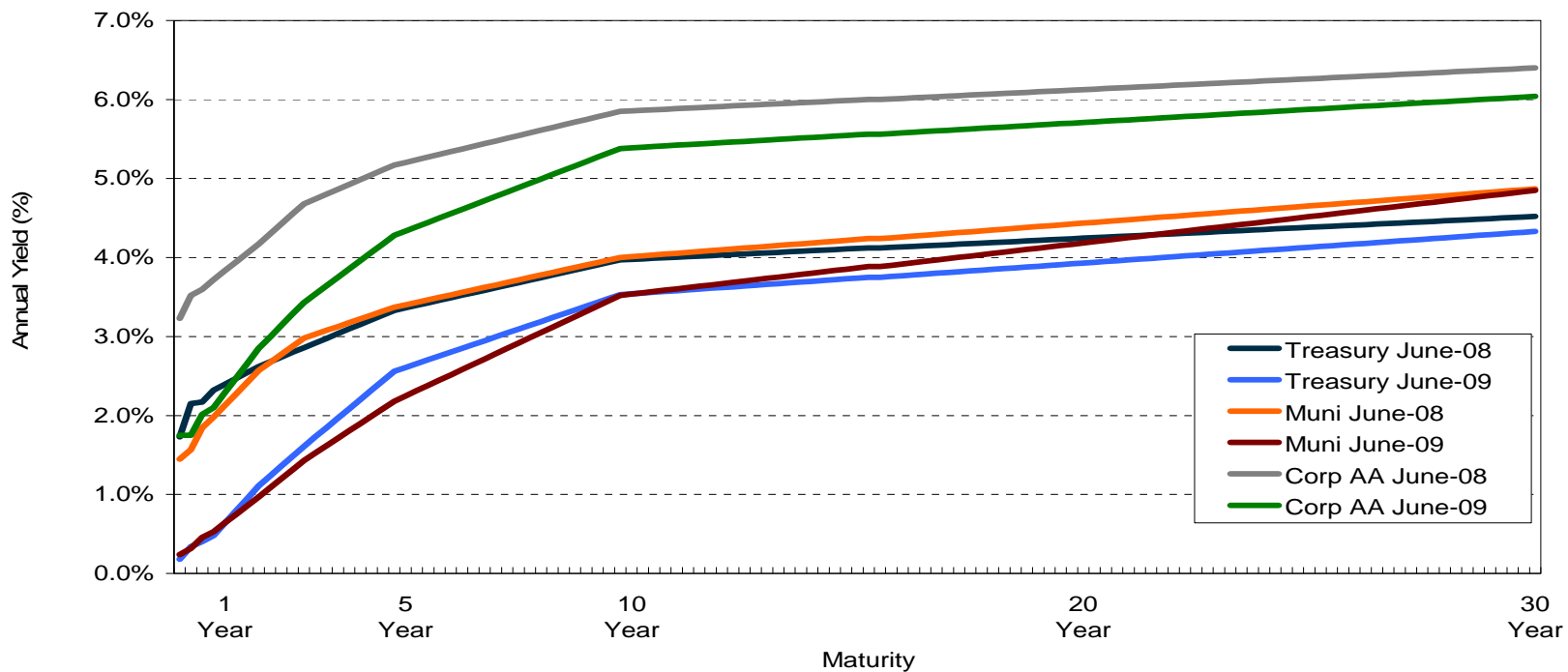
In general, the fixed income markets experienced diverging fortunes in the second quarter: U.S. government securities experienced declines in prices and increases in yields during the second quarter; corporate obligations saw prices rise and yields fall; and municipals were mixed. Much of the backup in yields can be attributed to the increased borrowing demands of the U.S. government as it finances many of the economic stimulus programs and initiatives put in place over the past couple of quarters. In addition, some observers believe the massive quantitative easing, undertaken by the Fed to support the system, places the economy at risk of heightened inflation, the expectations for which result in higher yields.

U.S. government securities bore the brunt of the yield increase on a relative basis. While the shortest maturity obligations actually saw yields fall somewhat, maturities of two years and beyond saw yield increases and price declines for the quarter. The yield on the 2-year Treasury Note rose from 0.80% at the end of March to 1.11% on June 30th; the 5-year yield rose from 1.66% at the end of March to 2.56% on June 30th; and the yield on the 10-year rose from 2.66% to 3.53% respectively.

Corporate bonds exhibited the mirror image of the performance of U.S. government securities in the second quarter. Because of the improving economic backdrop, both investment-grade and high-yield corporate bonds generally witnessed price increases and yield declines. For example, the yield on the FINRA/Bloomberg Index⁵ of active investment-grade securities fell from 7.35% at the end of March to 5.80% on June 30th. The yield on the FINRA/Bloomberg Index⁵ of high-yield securities fell even more dramatically, from 16.39% at the end of March to 11.95% on June 30th.

Municipal securities performance was mixed during the second quarter. Yields were generally lower, but to a far less extent than corporate obligations. The yield on a 2-year AAA General Obligation bond fell two basis points, from 0.99% at the end of March to 0.97% on June 30th. The yield on the 10-year AAA General Obligation bond rose slightly, from 3.48% to 3.52% respectively. Because the 10-year Treasury yield is almost identical, the Municipal offers a significant premium on a taxable equivalent basis.

U.S. Treasury, Muni and Corporate 30-Year Yield Curves



Source: Bloomberg

Equity Markets

In a sharp contrast to the first quarter of 2009, equity markets rebounded in the second quarter. The S&P finished the quarter up 15.9% while the NASDAQ closed up 20.3%. These gains were able to turn both indices positive for the year, following first quarter losses of -11.0% and -2.8%, respectively.

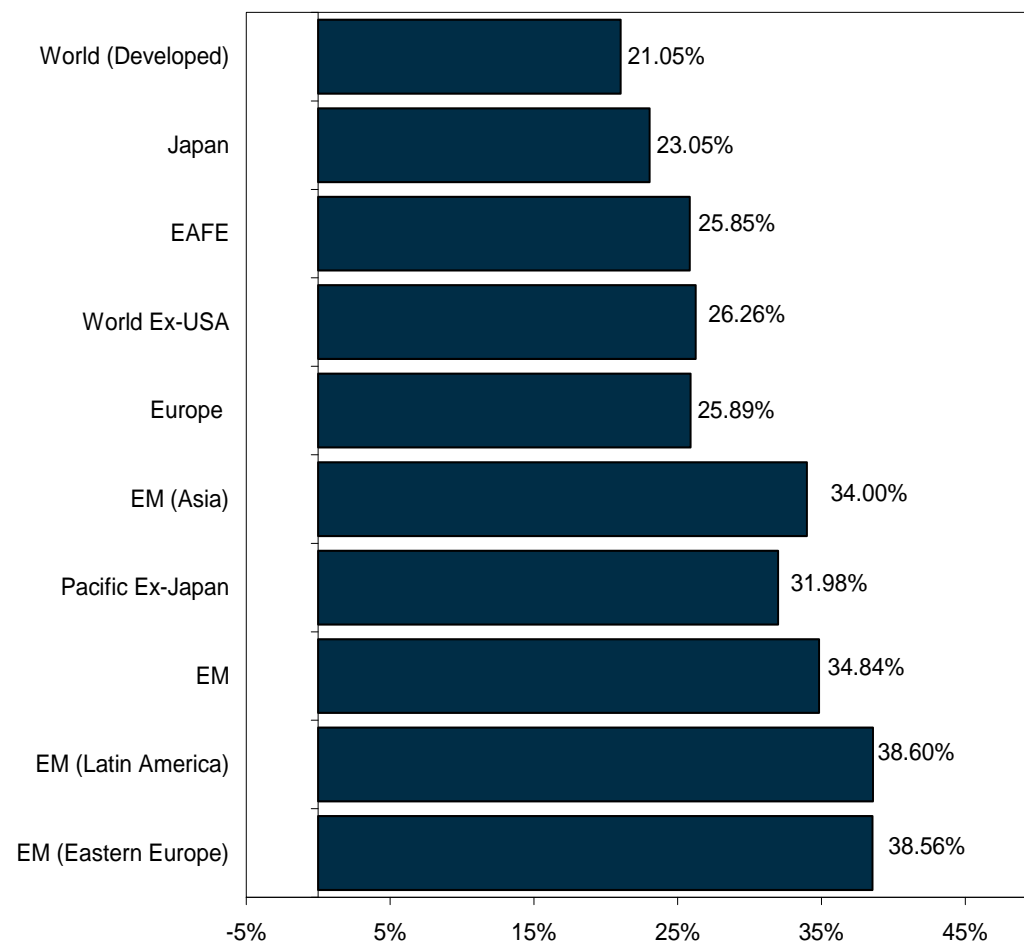
Emerging markets posted big gains during the quarter as the MSCI Emerging Markets Index posted a return of 34.8%. Year-to-date, the index is up 36.2%. In similar fashion, indices for the regions of Asia, Eastern Europe, and Latin America all posted returns greater than 30%.

Developed markets posted double digit returns with the MSCI EAFE, a major benchmark for international equity, registering a 25.9% gain for the quarter and 8.4% year-to-date. The MSCI European and MSCI Japan indices posted gains of 25.9% and 23.1%, also placing them in positive territory since the beginning of the year. Large-cap, mid-cap, and small-cap equity indices all rebounded for the quarter with the Russell 1000, Russell Mid-Cap and Russell 2000 posting gains of 16.5%, 20.8% and 20.7%, respectively.

Certain S&P/GICS⁶ sectors had strong performance for the quarter. Financials led the way posting a 35.1% gain, though the sector remains down 4.8% for the year. Information Technology, Industrials and Consumer Discretionary also posted gains greater than 15%. Year-to-date, Information Technology has been the strongest performing sector with a return of 24.1%.

Non-U.S. Equity Market Returns

By Country (U.S.Dollars)
2nd Quarter 2009



Source: MSCI

Investors hope the recent rally extends into the third quarter of 2009. Despite the market's surge during the second quarter, there are many who believe the market has rebounded too far, too fast. It will be critical to observe the progress of the government initiatives coming out of Washington as they continue through the implementation stage. Though the economy is yet to provide definitive evidence that it has turned a corner, the previous three months have provided evidence that the global financial system is attempting to right itself.

Disclosures:

Industry Definitions:

¹*The S&P/Case-Shiller Home Price Indices: Measures the residential housing market, tracking changes in the value of the residential real estate market in 20 metropolitan regions across the United States. These indices use the repeat sales pricing technique to measure housing markets. First developed by Karl Case and Robert Shiller, this methodology collects data on single-family home re-sales, capturing re-sold sale prices to form sale pairs. This index family consists of 20 regional indices and two composite indices as aggregates of the regions.*

²*The NAHB Housing Market Index: A weighted, seasonally adjusted statistic derived from ratings for present single-family sales, single-family sales in the next six months and buyers traffic. A rating of 50 indicates that the number of positive or good responses received from the builders is about the same as the number of negative or poor responses. Ratings higher than 50 indicate more positive or good responses.*

³*Conference Board Consumer Confidence Index: a measure of how people feel about the future of the economy and their own financial situation, obtained through polling.*

⁴*LIBOR Rate: LIBOR is the interest rate that banks charge each other for one-month, three-month, six-month and one-year loans. LIBOR is an acronym for London InterBank Offered Rate. This rate is that which is charged by London banks, and is then published and used as the benchmark for banks rates all over the world.*

⁵*FINRA/Bloomberg Index – Active Investment Grade Securities & FINRA/Bloomberg – High Yield Securities: The FINRA/Bloomberg Active U.S. Corporate Bond Indexes are comprised of the "active" (most frequently traded) fixed coupon bonds represented by FINRA TRACE, FINRA's transaction reporting facility that disseminates all over-the-counter secondary market transactions in these public bonds. Indexes are updated after 5:30PM ET each business day. The indexes are rebalanced on a monthly basis.*

⁶*GICS (Global Industry Classification Standard): The GICS classifications aim to enhance the investment research and asset management process for financial professionals worldwide. It is the result of numerous discussions with asset owners, portfolio managers and investment analysts around the world and is designed to respond to the global financial community's need for an accurate, complete and standard industry definition. The GICS structure consists of 10 sectors, 24 industry groups, 68 industries and 154 sub-industries.*

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

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