Equity Market Commentary

Global Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
MSCI World Index	8.5%	15.9%	-21.1%	-5.1%	2.9%
MSCI All Country World Index	8.8	19.3	-20.5	-4.1	4.0

Annualized for periods greater than one year.

Market Environment: During July, the International Monetary Fund (IMF) significantly boosted its support of poorer countries struggling in the global crisis, announcing plans to lend up to $17 billion through 2014. In addition, interest on existing loans need not be paid until 2011. Iceland formally applied for admittance to the European Union to help stabilize its ailing economy, although issues including protection of its fishing industry are subject to negotiation. The US and China agreed in July to maintain their stimulus efforts and address the trade and investment imbalances that contributed to current global economic conditions. Oil prices fluctuated during the last week of the month, ending the period in their first monthly drop since January as the summer driving season began to wind down and inventories rose.

MSCI WORLD INDEX

Leaders: Hong Kong/Singapore (14.4%), Australia/New Zealand/Canada (11.3%), Europe ex-UK (11.1%)
Banks – UK (19.0%), Banks – Europe ex-UK (16.0%), Banks – Australia/New Zealand/Canada (15.4%), Consumer Discretionary – Europe ex-UK (14.0%)
Laggards: Japan (4.3%), US (7.5%), UK (9.3%)
Information Technology – UK (-5.5%), Banks – Japan (-1.0%), Utilities – UK (-0.8%), Utilities – Japan (0.7%), Telecommunication Services – Japan (1.6%)

Outlook/Positioning: Our model signals modest exposure to emerging markets, with the largest overweight in the US. The UK is also overweight. The aggregated resource-based Australia/New Zealand/Canada region is the biggest underweight, with additional underweights in Japan, Europe ex-UK and Hong Kong/Singapore. At the sector level, the most significant overweights are Telecommunication Services and Information Technology. The top underweight is Financials ex-Banks.

Region/Country Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
Russell 1000 Index	7.6%	12.3%	-20.2%	-6.0%	0.3%
MSCI EAFE Index	9.1	18.3	-22.2	-5.1	5.3
FTSE All-Share Index	9.2	26.1	-25.1	-8.0	3.2
FTSE World Europe ex UK Index	11.3	17.5	-24.7	-3.6	7.3
MSCI Japan Index	4.3	7.1	-16.9	-8.6	1.6
MSCI Emerging Markets Index	11.3	51.6	-16.6	6.5	18.0

Annualized for periods greater than one year.

US Market

Market Environment: GDP data issued in July showed that the US recession is beginning to ease, with a smaller-than-anticipated contraction for the second quarter. However, consumer confidence fell during the month to its lowest level since April over worries about jobs and income. Numerous companies beat analysts' expectations this earnings season, but many of them relied on cost-cutting measures rather than revenues to improve the bottom line. Government supporters of the "Cash for Clunkers" rebate program, which lifted auto sales in July but blew through its $1 billion budget, have pledged to find additional funding.

RUSSELL 1000 INDEX

Leaders: Consumer Cyclicals (20.3%), Materials (13.0%), Technology (12.4%), Transportation (11.0%)
Laggards: Software & Services (3.0%), Utilities (4.4%), Energy Services (4.6%), Energy (4.9%)

Outlook/Positioning: Based on Batterymarch's model, Energy, Technology and Health Care are among the overweights. Underweights include Consumer Staples, Industrials and Transportation.

Non-US Developed Markets

UK
Recent reports indicated that the UK economy shrank twice as much as predicted in the second quarter, due in part to the weak construction sector. Figures for July were more encouraging, however. Consumer confidence remained steady at its highest level since April 2008, and UK retailers reported their best monthly sales in a year. The Bank of England kept interest rates at 0.5% for the month and announced plans to purchase short-term corporate debt. In contrast to government forecasts, the IMF believes that the economy won't start expanding until next year.

Europe ex-UK
European consumer confidence grew during July, and demand for home mortgages was positive for the first time in over three years in spite of mounting unemployment and a second month of price declines. June and July have been the only periods of disinflation since the advent of the euro in 1999. This trend should be short-lived, however, with both the European Central Bank (ECB) and IMF forecasting price increases later this year. In the meantime, the ECB is expected to maintain its loose monetary policy.

Japan
Data released in July showed Japanese unemployment climbing to a six-year high of 5.4% for June while wholesale prices took their worst-ever drop of 6.6% from a year earlier, stoking deflationary fears. On the positive side, manufacturing output rose during June for the fourth month in a row, and the country's trade surplus saw its first increase in nearly two years. The Bank of Japan announced in July that the economy has "stopped worsening" and predicted that deflation will start to ease in the fourth quarter as economic growth returns.

MSCI EAFE INDEX

Leaders: Hong Kong/Singapore (14.4%), Europe ex-UK (11.1%), Australia/New Zealand (10.2%)
Banks – UK (19.0%), Banks – Europe ex-UK (16.0%), Consumer Discretionary – Europe ex-UK (14.0%), Materials – Europe ex-UK (13.4%), Industrials – Europe ex-UK (13.0%)
Laggards: Japan (4.3%), UK (9.3%)
Information Technology – UK (-5.5%), Banks – Japan (-1.0%), Utilities –UK (-0.8%), Utilities – Japan (0.7%), Telecommunication Services – Japan (1.6%)

Outlook/Positioning: Our model calls for modest exposure to emerging markets and overweight positions in the UK and Hong Kong/Singapore. Japan is a notable underweight, with smaller underweights in the combined Australia/New Zealand market and the Europe ex-UK. The leading overweights by sector are Health Care and Banks. Industrials and Materials are among the underweights.

Emerging Markets

Market Environment: July brought news that the Chinese economy grew almost 8% year-on-year in the second quarter, primarily from domestic consumption. A renewal of IPO activity during July, following a nine-month moratorium, prompted an overwhelming response from investors. Despite worries of a market bubble, officials vowed to maintain a relatively lax monetary stance rather than dramatically curtail lending. Demand for IPOs is similarly strong in India, whose stock market performance over the past several months also sparked fears of a run-up. The Indian government increased its inflation forecast during July and said that it may soon tighten its monetary policy. In Brazil, central bankers brought interest rates down to 8.75%, a level they believe will spur the economy without pushing inflation beyond their 4.5% target.

MSCI EM INDEX

Leaders: Indonesia (24.5%), Eastern Europe (23.5%), Turkey (20.8%), South Korea (18.6%)
Automobiles & Components (22.9%), Semiconductors & Semiconductor Equipment (22.7%), Insurance (17.7%), Retailing (16.3%), Technology Hardware & Equipment (15.7%)
Laggards: Pakistan (0.0%), Middle East (3.3%), Thailand (3.9%), South Africa (5.1%), smaller Latin America (7.6%)
Real Estate (5.4%), Consumer Services (5.9%), Commercial & Professional Services (5.9%), Energy (6.1%), Health Care Equipment & Services (6.8%)

Outlook/Positioning: Batterymarch's model points to overweights in Brazil, Russia (where valuations are still cheap), Turkey, South Korea and Mexico. The largest underweights are Taiwan, Malaysia, India and China (due to relatively high valuations). From an industry-group perspective, overweights are led by Automobiles & Components, Materials and Transportation, while Utilities and Energy are the largest underweights.

NOTE: All data is shown in US dollars.

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