

Q2 2010 Economic Snapshot

Factor	Outlook	Rationale
Interest Rates	Stable	Increased supply is putting upward pressure on yields and rising government debt suggests pressure will persist at a slow, if unsteady, pace. Longer term, we anticipate higher nominal interest rates will be necessary to motivate investors to purchase bonds. The Fed's Fund Rate is expected to remain near zero until 2011.
Corporate Strength	Weakening	Analysts have increased earnings expectations even though the pace of the recovery has slowed, and comparison numbers are higher leading into the second half of 2010. While today's leaner corporations have higher profit margins, revenue may weaken after the second quarter.
Credit	Weak but improving	Lenders remain hesitant to extend credit amid weak real estate values and high delinquency rates. Demand for credit is falling as businesses and consumers seek to improve their balance sheets.
Dollar	Mixed	Rising federal debt loads combined with a zero-interest-rate policy will continue to put downward pressure on the U.S. dollar relative to the currencies of U.S. trading partners. However, this pressure is being offset by European Union default concerns. We have reduced our allocations to international equities -- and thus non-dollar currencies -- in response to our revised capital market forecasts.
Employment	Weak	Employment continues to worsen as economic growth is not sufficient to generate job growth. It will take a considerable period of time to regain the 8.4 million jobs lost during the recession.
Inflation	Weak	Unused manufacturing resources and lower employee costs are keeping a lid on inflation pressures. Many of our clients currently have meaningful levels of inflation protection through exposure to equities and non-dollar assets should inflation rise unexpectedly.