












The Economy

Despite the weaker-than-expected private sector part of the nonfarm payrolls number in May the U.S. economic recovery looks to be on solid footing. Ongoing weakness in the euro continues to push the value of the dollar higher and that is creating headwind for commodities (excluding gold). The correction underway in the stock market is likely more of a "too far, too fast" scenario than fear over a double-dip recession. After all, the S&P 500 had posted a gain of 79.9% from its 3/9/09 low (through 4/23/10) without having experienced the usual 10%-plus correction.

Consumer Confidence 63.3 (May) 57.9 (Apr) 	Crude Oil (Mo.-End) \$73.97 (May)  \$86.15 (Apr)	Personal Spending U 0.0% (Apr) N Mar. up 0.6% C H.	ISM Manufacturing  59.7 (May) 60.4 (Apr)	ISM Non-Manufacturing U 55.4 (May) N 55.4 (Apr) C H.
Gold (Mo.-End)  \$1212.20 (May) \$1180.70 (Apr)	Natural Gas (Mo.-End)  \$4.34 (May) \$3.92 (Apr)	Factory Orders  1.2% (Apr) Mar. up 1.3%	New Home Sales  504,000 (Apr) 411,000 (Mar)	Existing Home Sales  5.77M (Apr) 5.35M (Mar)

The Stock Market

Indices (Source: Bloomberg)	May	12-mo.	Only four out of the 134 subsectors (3.0%) that comprise the S&P 500 posted a gain in May, down from 97 last month. Telecom Services was the top performing major sector, down 3.9%, according to S&P. In May, the dividend-payers (368) in the S&P 500 (equal weight) posted a total return of -7.75%, vs. -6.41% for the non-payers (132), according to Standard & Poor's. Year-to-date, the payers were up 3.20%, vs. a gain of 3.11% for the non-payers. The number of dividend increases year-to-date totaled 119, up from 77 increases a year ago. One company decreased its dividend, down from 54 a year ago. Standard and Poor's uses four categories to classify sell-offs in equities: <i>noise</i> (decline up to 4.9%); <i>pullback</i> (decline of 5.0% to 9.9%); <i>correction</i> (decline of 10.0% to 19.9%); and <i>bear market</i> (decline of 20% or more). It refers to bear markets with losses exceeding 40.0% as mega-meltdowns. Since 1946, the S&P 500 has experienced 53 pullbacks with an average decline of 7%, 18 corrections with an average decline of 14%, and 12 bear markets with an average decline of 33% (three were mega-meltdowns), according to Sam Stovall, Chief Investment Strategist at S&P. With respect to the 18 corrections, once they bottomed it took only four months, on average, to climb back above the pre-correction level.
S&P 500	-8.0%	21.0%	
DJIA	-7.5%	22.7%	
NASDAQ 100	-7.3%	29.9%	
S&P 400	-7.2%	34.5%	
Russell 2000	-7.6%	33.6%	
MSCI World (ex U.S.) (USD)	-10.9%	8.1%	
MSCI Emerging Markets (USD)	-8.7%	22.5%	
Growth/Value (Source: Bloomberg)	May	12-mo.	
S&P 500 Citigroup Growth	-8.0%	19.2%	
S&P 500 Citigroup Value	-7.9%	22.8%	
S&P Midcap 400/Citigroup Growth	-6.7%	33.5%	
S&P Midcap 400/Citigroup Value	-7.7%	35.8%	
Russell 2000 Growth	-6.6%	30.6%	
Russell 2000 Value	-8.5%	36.6%	

U.S. Dollar (U.S. Trade-Weighted Basket)  +3.4% (May) +5.9% (2010) \$ was down 5.9% in '09	CBOE Total Equity Options (# of contracts in millions)  May: 57.8 (-7.2%) Apr: 62.3 (+10.9%) Record 7/08: 67.2 million	Short Interest (NYSE) U May 14: 13.89B (0.0%) N Apr 15: 13.89B (-1.6%) C Record 7/08: 18.61 billion shares H.	VIX Volatility Index (S&P 500)  32.07 (5/28) 22.05 (4/30) Record 11/20/08: 80.86
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The Bond Market

Index (Source: Barclays)	May	12-Mo.	Yield	The activity in the bond market in May mirrored the sell-off in equities. In other words, there was enough bad news to motivate bondholders to take some gains in speculative-grade debt. The 12-month returns in the chart show the superior run enjoyed by the U.S. Corporate High Yield and Global Emerging Markets categories. Looking ahead, the real story in the high yield corporate bond market is the declining default rate. The U.S. speculative-grade default rate declined from 8.4% in April to 6.7% in May, according to Standard & Poor's Global Fixed Income Research. It is well below the recent high of 11.3% last November, but still above the 4.5% long-term average. There was only one corporate default in May, vs. 24 defaults in May 2009. The lack of any serious inflationary pressures continues to bolster investment-grade debt.
U.S. Treasury: Intermediate	1.31%	3.95%	1.73%	
GNMA 30 Year	1.33%	6.85%	3.72%	
Municipal Bond (22+)	0.64%	13.53%	4.93%	
U.S. Aggregate	0.84%	8.42%	3.19%	
Intermediate Corporate	-0.34%	14.75%	3.91%	
U.S. Corporate High Yield	-3.59%	28.79%	9.28%	
Global Aggregate	-1.56%	3.85%	2.73%	
Global Emerging Markets	-3.63%	17.13%	6.35%	

Key Rates as of May 28	Key Yield Spread	2010 Debt Issuance through April																		
Fed Funds 0-0.25% 2-Yr. T-Note 0.77% 10-Yr. T-Bond 3.29% 30-Yr. Mortgage 4.92% Bond Buyer 40 5.07% (Source: Bloomberg)	The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Bond was 589 basis points on 5/28/10, up from 464 on 4/30/10. It was 1,083 on 5/29/09. (Source: Bloomberg)	(Source: Thomson Reuters) <table border="1"> <thead> <tr> <th>Debt Category</th> <th>\$ Amount</th> <th>% change over '09</th> </tr> </thead> <tbody> <tr> <td>Treasury</td> <td>\$842.9 Billion</td> <td>+32.3%</td> </tr> <tr> <td>Corporate</td> <td>\$348.1 Billion</td> <td>+27.8%</td> </tr> <tr> <td>Convertible</td> <td>\$11.4 Billion</td> <td>+57.9%</td> </tr> <tr> <td>Asset-Backed</td> <td>\$49.8 Billion</td> <td>+37.4%</td> </tr> <tr> <td>Municipal</td> <td>\$131.0 Billion</td> <td>+7.1%</td> </tr> </tbody> </table>	Debt Category	\$ Amount	% change over '09	Treasury	\$842.9 Billion	+32.3%	Corporate	\$348.1 Billion	+27.8%	Convertible	\$11.4 Billion	+57.9%	Asset-Backed	\$49.8 Billion	+37.4%	Municipal	\$131.0 Billion	+7.1%
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Equity funds reported net cash inflows totaling \$13.9 billion in 4/10, vs. \$11.5 billion of inflows in 3/10, according to the Investment Company Institute. Bond fund inflows totaled \$27.7 billion, vs. \$37.2 billion of inflows in 3/10. Money Market fund outflows totaled \$126.5 billion, vs. \$155.8 billion of outflows in 3/10. Y-T-D through April, equity funds reported net inflows totaling \$40.6 billion, vs. \$118.7 billion of inflows for bond funds and \$463.0 billion of outflows for MMFs.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	1565.15	10/09/07	676.53	03/09/09	1089.41	-30.40%	-1.50%	1.98%
S&P 500/Citigroup Growth	939.41	07/17/00	363.99	03/09/09	558.66	-40.53%	-3.42%	1.61%
S&P 500/Citigroup Value	836.19	07/13/07	307.16	03/09/09	522.39	-37.53%	0.46%	2.35%
S&P 400	926.23	07/13/07	372.88	10/09/02	762.76	-17.65%	5.55%	1.41%
S&P 400/Citigroup Growth	383.70	06/05/08	162.27	10/09/02	331.86	-13.51%	5.97%	0.82%
S&P 400/Citigroup Value	361.18	06/04/07	135.55	10/09/02	275.50	-23.72%	5.17%	1.99%
S&P 100	829.83	09/01/00	322.13	03/09/09	493.06	-40.58%	-3.20%	2.18%
DJIA	14164.53	10/09/07	6547.05	03/09/09	10136.63	-28.44%	-1.63%	2.75%
NASDAQ 100	4099.30	09/01/00	804.64	10/07/02	1852.39	-54.81%	-0.11%	0.76%
Russell 2000	855.77	07/13/07	327.04	10/09/02	661.61	-22.69%	6.29%	1.28%
Russell 2000 Growth	455.25	10/10/07	169.69	10/09/02	358.51	-21.25%	4.72%	0.65%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	927.00	-27.39%	7.78%	1.85%
Russell 3000	907.58	10/09/07	389.61	03/09/09	646.04	-28.82%	-0.32%	1.88%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	3401.95	-36.77%	-11.11%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	75.12	09/21/01	343.93	-27.34%	-6.45%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2160.80	10/16/02	33997.59	-23.84%	-13.73%	3.58%
RTS/Russia (USD)	2487.92	05/19/08	131.02	01/03/01	1366.90	-45.06%	-3.33%	1.76%
Bombay SE 500/India (USD)	226.04	01/07/08	16.50	09/21/01	145.16	-35.78%	-1.01%	1.16%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	388.75	-52.02%	-18.66%	1.71%
KOSPI/South Korea (USD)	2.29	10/31/07	0.36	04/04/01	1.36	-40.74%	-5.98%	1.40%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	2538.16	-37.82%	-8.47%	3.17%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	968.93	-51.27%	-20.88%	3.97%
S&P Consumer Discretionary	318.54	06/04/07	125.72	03/09/09	254.68	-20.05%	9.00%	1.49%
S&P Consumer Staples	306.61	12/10/07	182.72	03/10/03	270.21	-11.87%	-0.44%	3.00%
S&P Energy	668.81	05/20/08	163.83	07/23/02	396.31	-40.74%	-6.87%	2.32%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	144.92	-35.28%	-6.55%	4.58%
S&P Financials	509.55	02/20/07	81.74	03/06/09	197.42	-61.26%	2.34%	1.11%
S&P Banks	414.38	02/20/07	49.02	03/05/09	141.21	-65.92%	13.12%	0.91%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	379.36	-43.93%	11.13%	3.58%
S&P Health Care	444.98	12/28/00	252.84	03/05/09	333.08	-25.15%	-7.25%	2.16%
S&P Pharmaceuticals	496.83	12/28/00	214.50	03/03/09	273.52	-44.95%	-9.32%	3.88%
NYSE Arca Biotechnology	1253.57	03/23/10	280.09	07/10/02	1052.01	-16.08%	11.66%	1.49%
S&P Information Technology	887.77	07/17/00	172.88	10/09/02	351.80	-60.37%	-4.68%	0.93%
Philadelphia Semiconductor	1269.30	06/21/00	171.32	11/20/08	355.66	-71.98%	-0.69%	1.13%
S&P Telecom Services	291.61	06/19/00	79.00	09/30/02	102.44	-64.87%	-8.15%	6.07%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	256.48	-32.71%	6.54%	2.18%
S&P Materials	285.91	05/16/08	102.55	10/09/02	185.64	-35.07%	-6.42%	1.86%
Philadelphia Gold & Silver	206.37	03/14/08	41.85	11/17/00	173.93	-15.72%	3.71%	0.60%
Reuters/Jefferies CRB	473.52	07/02/08	183.52	10/22/01	254.80	-46.19%	-10.09%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	137.73	-30.39%	2.20%	7.80%
Merrill Lynch High Yield Master II	243.13	04/27/10	106.67	10/10/02	234.47	-3.56%	3.32%	9.35%