

October 2008 Market Commentary

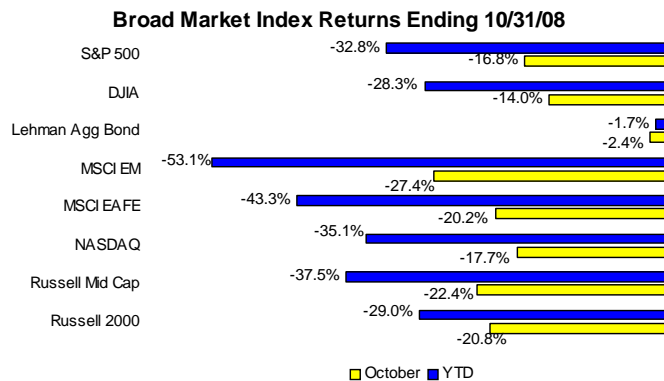


U.S. and overseas equity markets were deeply negative in October and the volatility index (VIX) hit record levels as the ongoing freeze in credit markets brought corporate activity to a halt. In a coordinated move major central banks around the world cut interest rates and several governments infused capital into banks.

For the month, the S&P 500, the technology-heavy NASDAQ Composite and the Russell 2000 Index declined 17%, 18% and 21%, respectively. Meanwhile, the Dow Jones Industrial Average declined nearly 14%. Healthcare, consumer staples and telecommunications services were among the top performing sectors, while materials, consumer discretionary and financials underperformed. Across market capitalizations, larger companies generally outperformed smaller companies. No investment style emerged as a favorite, as value fared best among large- and small-caps, but trailed among mid-caps.

U.S. fixed income markets also suffered losses. Treasury returns were mixed, as the short end was the only safe haven. Investment grade corporate securities declined over 6%, with the lower tier BBB-rated issues falling a staggering 11%. Lower quality, higher yielding corporate securities plunged 16%, their worst month ever. CCC-rated issues plunged 24%, which was far worse than the 14% decline for BB-rated issues. The asset-backed securities (ABS) sector declined 6%, weighed down by issues secured by consumer receivables such as credit cards and home loans.

International markets moved lower, with the MSCI EAFE ending down 20%. Among the largest European markets, France and Germany declined 22% and 23%, respectively. Within the Pacific region, Australia declined 26%, while Singapore fell 29%. Meanwhile, Japan lost 15% as the yen rallied nearly 8% against the U.S. dollar. The Bank of Japan cut interest rates for the first time in seven years by 20 basis points to 0.3%. In the emerging markets, the MSCI EM plunged 27%, with stocks in all countries ending deeply in the red.



World Market Recap

Economy

- ✓ The Federal Reserve slashed interest rates by a total of 100 basis points during the month to 1% as the pace of economic activity slowed markedly.
- ✓ Unemployment rose to 6.5% in October, higher than Wall Street economists anticipated. In all, the U.S. economy has now lost 1.2 million jobs in the first 10 months of 2008.
- ✓ Following month-end, the United States elected its first African-American president amid record voter turnout after a historic two year long campaign. Barack Obama (D), a first term senator from Illinois,

defeated Arizona Senator John McCain (R), a former prisoner of war. For the first time since the Clinton administration, the Democrats will control the White House and both houses of Congress.

U.S. Equity

- ✓ The consumer staples and healthcare sectors were among the best performers as investors flocked to these defensive areas.
- ✓ The financial sector ended sharply lower as banks and other financial institutions declined double-digits. Banking giants such as Goldman Sachs and Citigroup, as well as asset managers such as Legg Mason and Fidelity Investments announced large layoffs to reduce expenses in the challenging market environment.
- ✓ Energy and materials stocks moved significantly lower as oil and other commodities plunged during the month. Crude oil closed down over 30% in October.
- ✓ Holdings within the consumer discretionary sector also recorded steep losses as consumers abruptly halted spending. Tight credit and worried consumers resulted in the weakest pace of U.S. automobile sales in 25 years. U.S. auto executives are expected to take their case for a \$25 billion industry bailout to Congress.

Fixed Income

- ✓ Treasury returns were mixed, as the short end was the only safe haven with one- to five-year Treasuries recording positive returns. Short Treasuries rallied as the Federal Reserve lowered interest rates.
- ✓ Heavy selling in TIPS resulted in a loss of nearly 9%, the poorest monthly return since the securities were created in 1997.
- ✓ Investment grade corporate securities declined over 6%, as weakness in industrial and utility issues weighed on the sector.
- ✓ Recession fears sent lower quality, higher yielding corporate securities down 16%. CCC-rated issues plunged 24%, which was far worse than the 14% decline for BB-rated issues.
- ✓ The asset-backed securities (ABS) sector declined 6% on weakness in consumer receivables such as credit cards and home loans. The credit card sector declined nearly 8%, by far the worst monthly return ever.

Currency Markets

- ✓ Of the major currencies, only the Japanese yen rose against the U.S. dollar as a massive repatriation of funds from overseas back into the yen (carry trade) provided strong support. The British pound and the Euro slid more than 9% against the U.S. dollar as financial turmoil led to a flight to safety and increased demand for the U.S. currency.

International Developed Markets

- ✓ Canada declined 27% as the Bank of Canada cut interest rates by a total of 75 basis points to 2.25% during the month. Policymakers cut their forecast for economic growth and signaled more easing ahead. Canada's key interest rate has not been below 2% since 1960.
- ✓ The United Kingdom fell 19% as the Bank of England (BoE) reduced interest rates by 50 basis points to 4.5% as recession fears heightened. Following month-end, the BoE slashed rates by 150 basis points to 3%, the largest cut since the BoE became independent in 1997.

- ✓ The European Central Bank cut interest rates by 50 basis points to 3.75%. This was the first rate cut in more than five years as part of coordinated action with other major central banks to shore up the global economy.
- ✓ According to initial estimates, the economy of the 15-nation Eurozone is in a recession for the first time in its 10-year history after contracting by 0.2% in both the second and third quarters. A recession is typically defined as two consecutive quarters of shrinking growth.
- ✓ In the Pacific region, Japan declined 15% as the central bank cut interest rates for the first time in seven years by 20 basis points to 0.3%. Australia fell nearly 26% as the Reserve Bank of Australia cut interest rates by 100 basis points to 6%.

International Emerging Markets

- ✓ In Emerging Asia, China and India declined 23% and 29%, respectively, as central banks in both countries slashed key interest rates.
- ✓ Within Latin America, Argentina declined 42% as President Cristina Fernandez de Kirchner proposed a government takeover of private pension funds, saying retirees must be protected from the global financial crisis. Brazil declined 32% as sharp losses at the Sao Paulo stock exchange triggered a trading halt.
- ✓ Within Eastern Europe, Russia's stock market plummeted 35% and government officials suspended trading several times amid sharp declines on fears that falling oil prices will hurt the commodity-driven economy. Hungary plunged 43% and sought an emergency loan from the IMF to shore up its battered economy.
- ✓ Among Middle Eastern countries, Turkey declined 34% on concerns surrounding a growing current account deficit. With a huge current account deficit, Turkey has seen a sharply depreciating currency. Turkey may have no choice but to also turn to the IMF for a bailout loan as the credit crisis deepens.

*All indices are unmanaged and investors can not actually invest directly into an index. Past performance is not indicative of future results.

The S&P 500 Index is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's.

The Dow Jones Industrial Average is based on the average performance of the 30 blue-chip stocks monitored.

Russell 2000 Index measures the performance of the small-cap stocks.

The NASDAQ Composite measures all domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market.

MSCI EAFE is a market-cap weighted index representing 20 of the developed markets outside North America. These 20 countries include 14 European countries and 6 Pacific countries.

MSCI Emerging Markets is a market-cap weighted index representing 26 of the emerging countries in the world.