



ECONOMIC OUTLOOK

- ◆ The Federal Reserve confirmed its intention to keep short term interest rates low for an “extended period” following its June meeting. Recall that this language was first used in March 2009 after the Fed dropped the target overnight lending rate in December 2008 to 0 – 0.25%. The statement from the Fed conveyed the idea that the economic recovery is proceeding slowly. Separately, the Commerce Department made downward revisions to first-quarter GDP growth. Originally estimated at 3.2%, the rate was subsequently downgraded to 2.7%, a marked deceleration from the 5.6% pace of expansion in the fourth quarter of 2009.
- ◆ While the Fed did indicate that there is in fact a recovery happening, government reports in June sent mixed signals about its strength. Certainly, it is true that economic activity has not been sufficient to spur job growth. New claims for unemployment insurance are still at disappointingly high levels. The Labor Department said private employers added just 41,000 jobs in May, down dramatically from 218,000 in April and the lowest number since January. Factoring in a poor jobs outlook, consumer confidence plummeted in June, as measured by the Conference Board’s survey. In addition, the ISM index of manufacturing activity fell to 56.2, down from 59.7 in May, which was a reading below forecasts. One small positive was that U.S. consumer spending in the month of May rose more than expected, up 0.2%.
- ◆ China made a surprise announcement that it will allow the yuan to gradually strengthen against other currencies. The U.S. and other countries have been pressuring China to address its huge surpluses with its trading partners. A stronger Chinese currency would make imports from China more expensive, which would be a positive for U.S. exporters who are contending with a very weak euro (which makes their goods more expensive in Europe). The euro sank to a four-year low of \$1.19 in June, as the region’s debt crisis weighed on the currency. Concerns abound that the euro zone could slip back into a recession, as GDP in the region expanded at an annual rate of just 0.2% in the last quarter. By contrast, first-quarter economic growth in China was 11.9%.
- ◆ Congress is set to pass major financial reform in early July. The legislation bears the title “Dodd-Frank Wall Street Reform and Consumer Protection Act.” This bill contains provisions designed to rein in risk-taking by banks and addresses derivatives, proprietary trading, and capital. A new Consumer Financial Protection Bureau within the Federal Reserve Board will be established as a watchdog group with a focus on preventing unfair practices in consumer loans and credit cards. Some analysts have estimated that the U.S. financial reform bill could dent the earnings of big banks by as much as 13 percent.

INVESTMENT REVIEW

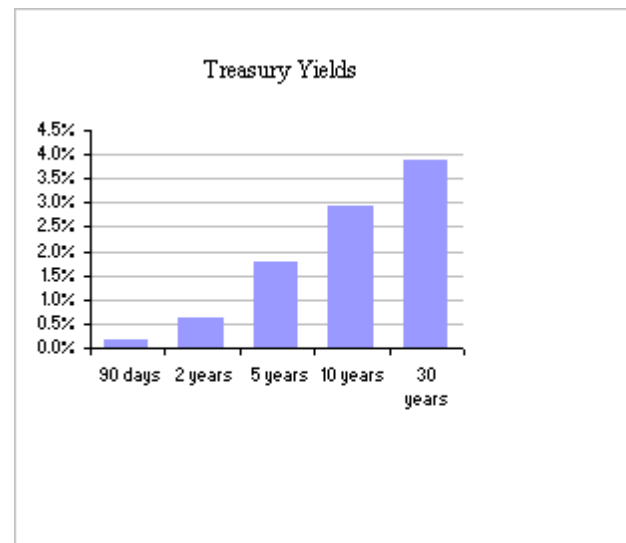
- ◆ For the quarter, the Dow Jones Industrial Average slid 10%, the S&P 500 dropped 11.9%, and the Nasdaq Composite fell 12%. Asian stocks were off as well, and clocked their worst quarterly performance since the end of 2008. The Shanghai Composite Index lost 27% in the first half, making it one of the world's worst-performing stock markets this year.
- ◆ Investors flocked to gold as a safe haven as the euro weakened. Gold is up 13% this year. Investors see gold as a store of value against the European debt problems, among other factors.
- ◆ Warren Buffett famously warned that treasuries were in an extraordinary bubble back in late 2008, but his wisdom went unheeded, as yields on two-year treasury notes this month further declined to 0.59%, an all-time low.

KEY INVESTMENT STATISTICS

	6/30/10	12 Month High	12 Month Low	YTD Price Change
Dow Jones Industrial Average	9774	11205	8147	-6.30%
Nasdaq Composite	2109	2530	1746	-7.00%
S & P 500 Stock Index	1031	1217	879	-7.60%

2010 Operating EPS Estimate	\$79
P/E on 2009 EPS	13x
2011 Operating EPS Estimate	\$92
P/E on 2010 EPS	11x
Dividend Yield	2.10%

Yields on U.S. Treasury Obligations	
90 days	0.18%
2 years	0.61%
5 years	1.78%
10 years	2.94%
30 years	3.89%



CPI: Trailing 12 Months	2.00%		
Crude Oil: Price Per Barrel	\$75	\$86	\$59
Gold: Price Per Ounce	\$1,244	\$1,261	\$909
Natural Gas: Price per MM Btu	\$4.67	\$7.37	\$1.92

Source: Bloomberg LLC, Thomson Financial, U.S. Department of Labor