

Week of: November 9, 2009

2009 MARKET VIEWS – SUMMARY

Economy

- We believe the U.S. economy is stabilizing and there may be modest growth by year end 2009.
- Our forecast conclusions include sustained low inflation and interest rates, weak consumption activity, and relatively weak corporate earnings during the next 18 months.
- In our view, the U.S. unemployment rate will probably not peak until 2010, and may remain persistently high as consumer retrenchment causes dislocation in employment.

Equity Markets

- Beginning in the second half of 2009 and extending into 2010, we anticipate domestic equities may lead most global equity markets in terms of price recovery.
- We believe the domestic equity market's rebound from March lows seems to reflect investors' belief of a return to economic and market normalcy and provides a degree of optimism regarding the unfolding global recovery.
- We anticipate that emerging markets may lead developed international markets over the near and intermediate term.

Fixed Income Markets

- Current rates on Treasury securities appear to be too low and may represent a risk to investors; rates are likely to rise.
- The credit markets, outside of Treasuries, may represent a potentially attractive opportunity for investors.
- Non-Treasury spreads narrowed during the first half of 2009, but are still historically attractive in investment grade and high yield corporate debt.

Commodity Markets

- We expect commodity prices to track the global economy.

Real Estate Markets

- Residential real estate may be near its nadir, but high unemployment and housing supply will likely keep prices low.
- Commercial real estate seems to be weakening and we anticipate this weakness could track into 2010.

CURRENT ECONOMIC UPDATE

- The jobs picture in the developed world has continued to worsen.
 - The U.S. unemployment rate for October increased to 10.2%, which is the highest rate since April 1983.
 - > The surge in the rate is being attributed to the 558,000 increase in the number of unemployed, and decrease of 31,000 in the labor force.
 - In the Eurozone, the seasonally-adjusted unemployment rate for September was 9.7%, which compares to a rate of 7.7% one year ago, and is the highest since January 1999.

Market & Economic Update

Week of: November 9, 2009

CURRENT ECONOMIC UPDATE, Cont'd.

- The U.S. nonfarm payroll employment for October declined by 190,000, following a revised decrease of 219,000 for September.
 - > One notable positive in the payroll survey portion of the employment situation is a 34,000 gain in temp help. This category is often seen as a leading indicator of hiring intentions by businesses. With incremental gains reported in both August and September, this component has now risen three months in a row.
- Recession-induced labor cost cutting has continued into the recovery and businesses are beginning to experience gains in productivity as a result.
 - This latest spike in productivity seems to reflect both higher output and fewer hours worked.
 - > Output jumped at an annualized 4% rate, while hours worked fell by an annualized 5% rate.
 - Nonfarm business productivity in the third quarter surged by a 9.5% annualized rate, following a revised 6.9% boost in the second quarter.
 - > This was the largest gain in productivity since the third quarter of 2003, when the rate rose to 9.7%.
 - In tandem, unit labor costs dropped by an annualized 5.2% rate after declining at a revised 6.1% rate for the second quarter.
- With consumers sticking their money into savings and banks cutting back on loans, consumer credit continues to dramatically tighten.
 - Consumer credit outstanding fell by \$14.8 billion in September to extend a long run of declines.
 - Revolving credit, mostly credit cards, fell \$9.9 billion, with non-revolving (mostly car loans) down by \$4.9 billion.
 - The only bit of good news seems to be that the rate of contraction appears to be easing as consumer credit contracted by a 6.1% pace in the third quarter versus a 6.6% rate in the second quarter.
- Both the Federal Reserve and Governing Council of the European Central Bank (ECB) kept interest rates unchanged.
 - The Fed maintained rates close to 0% (policy target is 0%-0.25%), while the ECB maintained the rate for its main refinancing operations at 1%.
 - > The statement made by the Fed following their action, which markets were keenly awaiting for any sign of a shift in policy, reiterated the intent to keep rates “exceptionally low” for an “extended period.”
 - > The ECB believes that a steady, but slow economic recovery is unfolding that will keep inflation within its target level of 2%.
- The Bank of England decided to inject £25 billion more (\$42 billion USD) into the British economy through its quantitative easing program, raising the cumulative total to £200 billion.
 - The extra asset purchases will be made over the next three months, which is at a slower rate than before.

MARKETS AT-A-GLANCE

	Fed Funds Target Rate	10-yr Treasury Yield	S&P 500 Close	DJIA Close
LAST WEEK (11/06/09 close)	0.00 – 0.25%	3.50%	1,069.30	10,023.42
Last Month (10/30/09 close)	0.00 – 0.25%	3.39%	1,036.20	9,712.73
Year End (12/31/08)	0.00 – 0.25%	2.25%	903.25	8,776.39

Data Source: Factset

Market & Economic Update

Week of: November 9, 2009

CURRENT MARKET EVENTS

Equity Markets

- The broad market averages advanced again last week, likely based on renewed investor confidence that growth metrics will advance and liquidity measures remain high.
 - Merger and acquisition activity is beginning to pick up and coupled with the lower dollar, the appetite for domestic equities is beginning to increase.
 - Cisco's earnings release and optimistic comments on their outlook appeared to ignite the entire NASDAQ market.
 - Rates on the 10-year bond have increased by 125 basis points year-to-date, but the short end of the yield curve remains a key liquidity driver for equities with both the Federal Reserve and Group of Seven (G-7) nations indicating a prolonged low rate agenda.
 - Gold is now selling for more than the S&P 500 which is a milestone event.
 - The Dow Jones Industrial Average (DJIA), NASDAQ, and S&P 500 all added more than 3% during last week's activities.
 - Mid-cap domestic names performed in line with the large-cap names, with small-cap stocks underperforming for the week, reaffirming that the rotation to large caps from small caps remains in tact.

- Driven by the results from Ford Motor, the year-over-year earnings decline for the S&P 500 has improved to negative 14.8%.
 - Fully 80% of the companies in the S&P 500 have reported that earnings have exceeded third quarter expectations.
 - Earnings surprises in the fourth quarter are likely to remain strong, but perhaps a bit less so as the sell side analysts begin to catch up a bit in their earnings estimate activities.
 - Strong absolute performance trends (and relative to Wall Street estimates) are likely to remain firmly in place due to the high degree of operating leverage on most income statements and near record productivity figures (actions that are likely to soon drive employment gains).
 - At current levels, the S&P 500 is now selling for approximately 15x anticipated 2010 earnings estimates.

- The Industrials sector and Dow Jones Transportation Index were the winners last week as the sale of Burlington Northern and General Electric's media transaction lifted these areas of the marketplace.
 - For the first time in a long while, money flows were negative in the emerging markets in four important geographies.
 - > The areas of Asia, Latin America, Europe, and the Middle East all experienced flows out (\$5.4 billion) for the week ended November 6th.
 - > Global rate hikes now total four with two of those in Australia, which served to cool investor enthusiasm in these commodity-oriented markets.
 - > Europe announced less quantitative easing than expected, sparking weakness in the European Union (EU).

Fixed Income Markets

- The release of the October unemployment report likely caused a sharp rally in shorter dated Treasuries.
 - The 2-year Treasury note closed down by six basis points at 0.84% on November 6th.
 - The 10-year Treasury note actually rose in yield to 3.50%, which is up by 11 basis points for the week ended November 6th.
 - > This relationship of a steeper yield curve comes as no surprise since the Federal Open Market Committee (FOMC) indicated they will not be raising the Fed Funds rate any time soon.

Market & Economic Update

Week of: November 9, 2009

CURRENT MARKET EVENTS, Cont'd.

Fixed Income Markets, Cont'd.

- The Treasury market will be facing more supply this week as \$40 billion in 3-year Treasury notes, \$25 billion in 10-year Treasury notes, and \$16 billion in 30-year bonds will be auctioned.
 - This week's 10-year Treasury note auction was expanded by \$2 billion.
- The Treasury yield curve could be further impacted on the long end as the Treasury announced plans to extend the average maturity of its debt issuance to lock in low interest rates.
 - The additional issuance of 10 and year-year Treasuries will make the curve steeper in our opinion, as longer term rates march higher.
- Concerns in the municipal bond market regarding balanced budgets and revenue shortfalls appear to have minimal impact as yields dropped across the yield curve last week.
 - Municipal bond yields today are now lower than in 2007 and 2008.
 - We caution investors to avoid New York bonds as the budget deficit in the state has now grown to \$3.2 billion.
 - > Across the state line, New Jersey forecasts an \$8 billion deficit next year.

Commodity Markets

- In an effort to diversify its foreign reserves, the Reserve Bank of India (RBI) bought 200 tonnes* of gold from the International Monetary Fund (IMF) during October, which is expected to nudge the country into the top ten gold holders worldwide.
 - The IMF's sale to the RBI is part of a plan to offload 403.3 tonnes, or an eighth of its total.
 - > The proceeds will create an endowment to cover the fund's operating expenses and help expand its lending.
 - > The IMF is doing its best not to rock the market by selling first to central banks, in keeping with their agreement in August to sell no more than 2,000 tonnes over a five year period.

**Tonnes: also called metric ton; a unit of mass equal to 1000 kilograms or 2204.6 pounds.*

Market & Economic Update

Week of: November 9, 2009

CURRENT ASSET ALLOCATION STRATEGY

- The Asset Allocation Committee made no changes to our tactical asset allocation guidance this week.
 - The Committee recognizes that existing tactical allocations are at the upper and lower bounds of our strategic asset allocation ranges, but feel that current asset valuations continue to merit this stance.

Balanced Portfolio Strategy – Tax Aware

Equity – 69% / Overweight

Domestic Large Cap: Overweight
Domestic Mid-Cap: Overweight
Domestic Small-Cap: Neutral
Developed International: Overweight
Emerging International: Overweight
Private Equity: Neutral
Hedged Equity: Overweight

Fixed Income – 26% / Underweight

Investment Grade: Underweight
High Yield: Overweight
TIPs*: Underweight
Foreign Debt: Neutral
Hedged Fixed: Neutral

*Treasury Inflation-Protected Securities

Real Estate – 0% / Underweight

Commodities – 5% / Overweight

If you have questions regarding this information or wish to receive definitions of any of the terms used in this commentary, please contact your Wealth Management Advisor.

All of  serving you™



Market & Economic Update

Week of: November 9, 2009

DISCLOSURES

NOT A DEPOSIT	NOT FDIC INSURED	MAY LOSE VALUE	NOT BANK GUARANTEED
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY			

- This information represents the opinion of U.S. Bank and is not intended to be a forecast of future events, a guarantee of future results or investment advice. It is not intended to provide specific advice or to be construed as an offering of securities or recommendation to invest. Investors should consult with their Portfolio Manager for advice concerning their particular situation. The factual information provided has been obtained from sources believed to be reliable, but is not guaranteed as to accuracy or completeness. U.S. Bank is not responsible for and does not guarantee the products, services or performance of third party providers. The International Monetary Fund, Ford Motor, Cisco, Burlington Northern, General Electric, and other firms/organizations mentioned in this publication are not affiliates of or are associated with U.S. Bank in any way.
- **Past performance is no guarantee of future results.** All performance data, while deemed obtained from reliable sources, are not guaranteed for accuracy. Not for use as a primary basis of investment decisions. Not to be construed to meet the needs of any particular investor. Not a representation or solicitation or an offer to sell/buy any security. Indexes shown are unmanaged and are not available for investment. The **S&P 500 Index** is an unmanaged, capitalization-weighted index of 500 widely traded stocks that are considered to represent the performance of the stock market in general. The **Dow Jones Industrial Average (DJIA)** is the price-weighted average of 30 actively traded blue chip stocks. The **NASDAQ Composite** is a market-capitalization weighted average of roughly 5,000 stocks that are electronically traded in the NASDAQ market.
- **Equities:** Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. **Fixed income securities:** Investing in fixed income securities are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investment in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer term debt securities. Investments in lower rated and non rated securities present a greater risk of loss to principal and interest than higher rated securities. **Commodities:** There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes, and the impact of adverse political or financial factors. **Real Estate:** Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties, such as rental defaults. **Hedge Funds:** An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem units in a hedge fund. Hedge funds are speculative and involve a high degree of risk. **International:** International investing involves special risks, including foreign taxation, currency risks, risks associated with possible difference in financial standards and other risks associated with future political and economic developments. **Emerging Markets:** Investing in emerging markets may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. **Small/Mid Cap:** Stocks of small- and mid-cap companies pose special risks, including possible illiquidity and great price volatility than stocks of larger, more established companies. **High-Yield Bonds:** Investments in high-yield bonds offer the potential for high current income and attractive total return, but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. **Treasury Inflation-Protected Securities:** A special type of Treasury note or bond designed to offer protection from inflation. Interest payments vary with the rate of inflation. These securities offer a lower return compared to other similar investments. The principal value may increase or decrease with the rate of inflation. Gains in principal are taxable in that year, even though not paid out until maturity. The original principal of such a security issued by the U.S. Treasury will be repaid at maturity during periods of deflation. Other issuers may not provide such a guarantee, and the principal repaid at maturity may be less than the original principal value. **Private Equity:** Consists of investors and funds that make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public equity. Potential investors should remember that investments in private equity are illiquid by nature and typically represent a long-term binding commitment. The investments made by private equity funds are not readily marketable and the valuation procedures for these positions are often subjective in nature.