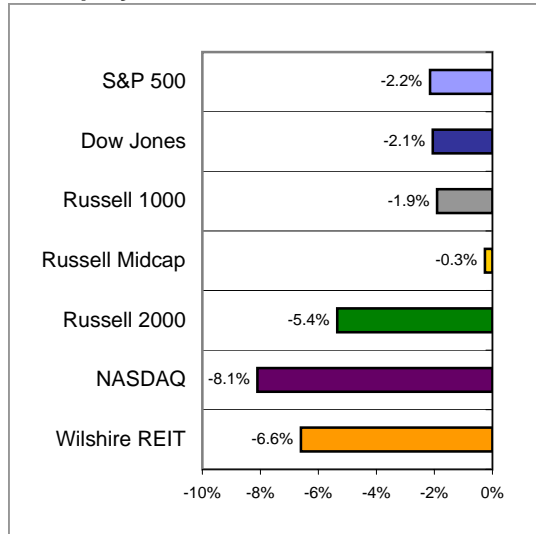


Financial Markets Review - First Quarter 2005

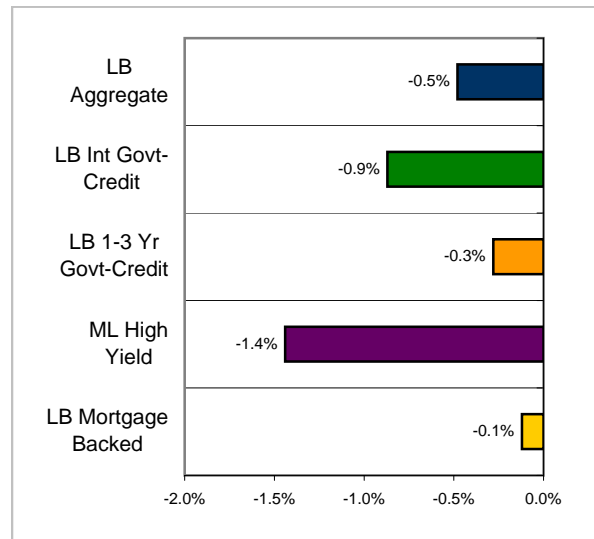
US Equity



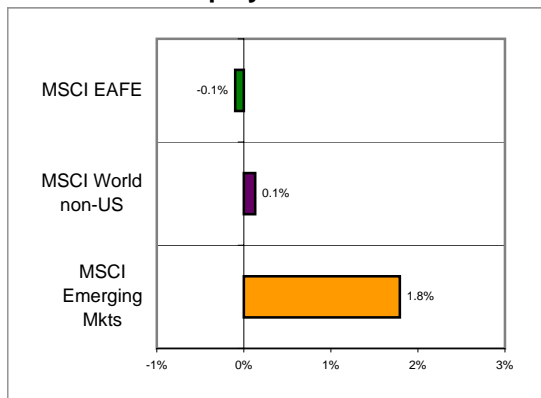
- The low-and-falling-interest-rate engine that boosted stock market growth for 23 years has run completely out of gas, causing downward pressure on stocks.
- Stock market price/earnings multiples have adjusted downward from their record, near 30-times level at the peak to a more historically familiar 20 times earnings.
- The market continues to be spooked by daily spiking of oil prices and other commodities, not to mention the Fed's steady determination to ratchet interest rates.

US Fixed Income

- The favorable US economy, energy prices and rising interest rates (actual and expected) all helped to spread negativism among bond buyers.
- Low interest coupons on most outstanding bonds make total returns particularly sensitive to bond price declines.
- High yield bonds were surprisingly weak in this strong economy...a bad indicator from bond traders about the near-term future.



International Equity



- The 4-year-old saga of US Dollar decline may be fully cooked; if not it appears to have reached a significant pause.
- If the Dollar does strengthen, Dollar-based investors will have a headwind to challenge their non-US investment returns.
- The Big Question: Will China let its currency float (it is now pegged to the Dollar)? In fact, most of the important questions relate to China.