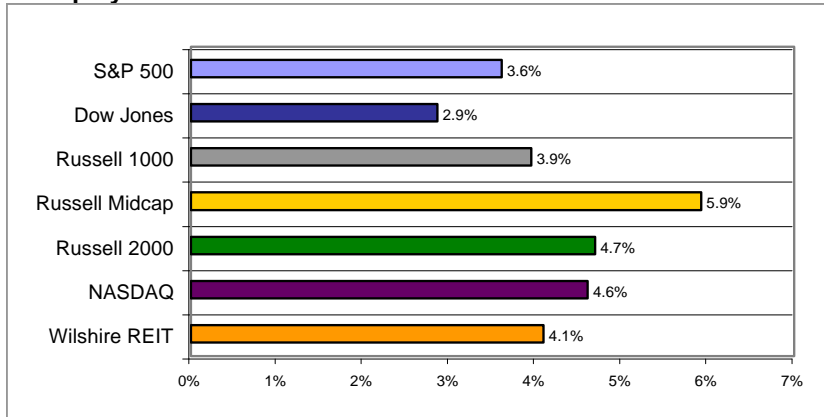


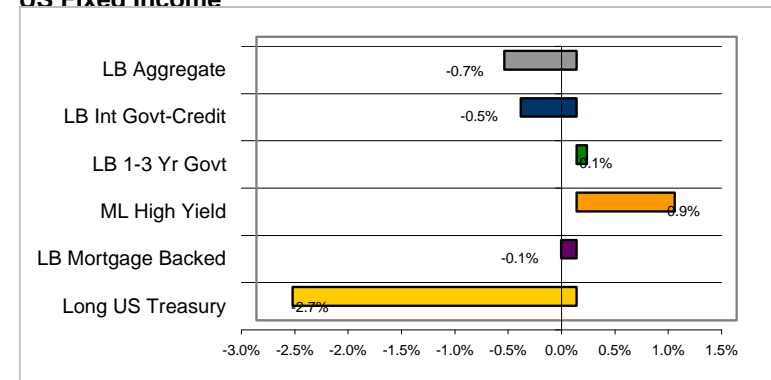
US Equity



- ◆ A solid quarter for all slices of the equity market-pie. Even September generated positive returns, despite tragic body-slams to the Gulf Coast and its hundreds of oil wells and refineries by two mega-hurricanes.
- ◆ Our view: Equity markets smell the enormous capital spending boom that will emerge from hurricane devastation. For starters, \$70-\$100 billion will flow out of insurance reserves and into the economy over a relatively short period. Then add another \$100 billion or so of private donations that are also coming out of capital reserves.
- ◆ Possibility: a stock market reversal of its euphoria over the storm-spending boom scenario, driven by the bond market's gloomy reaction to the same stimulus. See Fixed Income below.

- ◆ Largely negative bond market returns were the 3rd quarter flip-side of the equity numbers. Long bond prices were pummeled in the September aftermath of Mother Nature's twin sisters of destruction.
- ◆ Long bonds' significantly negative returns serve as an indicator of the gloom which traders read into storm-driven federal deficits that are suddenly gone wild (on top of the wearying spending-tedium in Iraq).
- ◆ Headlines included little about the Fat Lady's pending end of year aria, marking the end of Fed-head Alan Greenspan's 18-year run. But, we expect that bond traders were partly acting on their speculation and/or uncertainty about the yet-to-be-named next Chairperson.

US Fixed Income



- ◆ The return numbers at the left are indeed for only one quarter, though they are big enough to look like an entire year.
- ◆ The EAFE results are a surprise, given that (a) the French and Dutch blew a hole in the European Union's armor, rejecting the proposed Constitution which (b) caused the Euro to slump versus the US Dollar.
- ◆ Further turmoil in the European Union: Key member-state Germany's September elections were a confusing dead-heat, leaving the country's leadership and economic policy direction in real doubt.

International Equity

