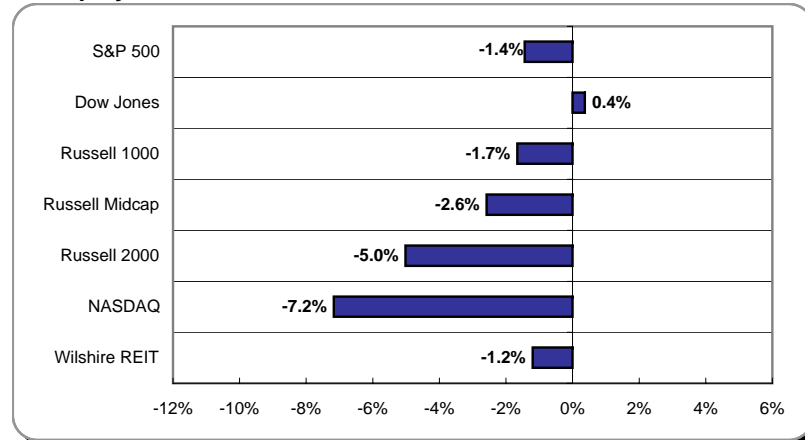


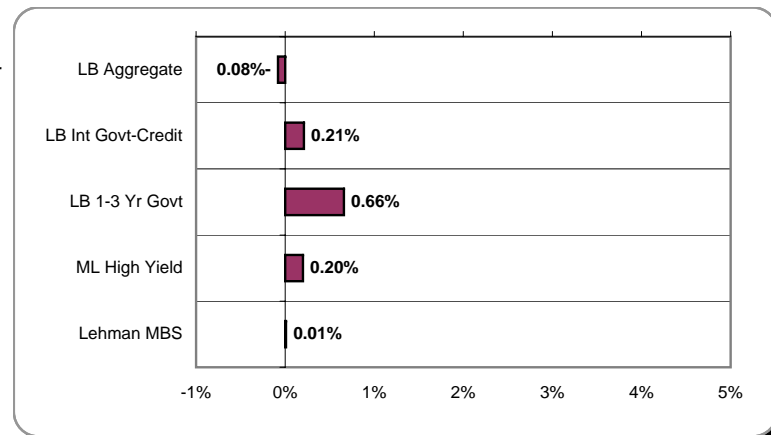
US Equity



- ◆ Just when cable-TV mavens shifted into cruise mode (early May), logs began to roll off the truck with so much downside momentum that although June was a break-even month, the quarter was, well, simply shabby.
- ◆ Pundits, never without an instant reason for market behavior, quickly faulted "jitters" (a favorite term in their dictionary) over alleged mixed signals from new Fed chairman Bernanke about the humming economy (a good thing) and its impact on future interest rates (a dreaded thing).
- ◆ Without apparent reason, value-type indexes re-asserted superior returns over their growth cousins for the 2Q. Typical return-spread: 400 basis pts.
- ◆ The Sea of Confusion parted at the Fed's end-of-June meeting, just in time to allow equity traders to put a crème topping on the quarter, until, that is, the last hour of the last day, when something spooked them again.

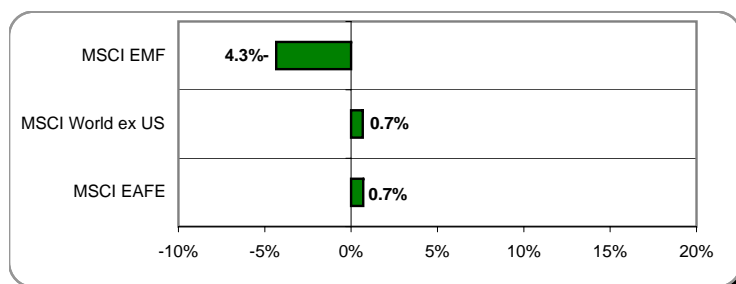
- ◆ Fed-driven rising short term rates have finally slammed their expected hammer on the long-maturity end of the bond market, big-time in 2006. The long US Treasury bond index, including coupon income, returned -1.33% for the 2nd quarter and is down a whopping 6.35% for 12 months.
- ◆ Despite Fed moves, the Treasury yield curve at quarter-end was still disturbingly flat. Yield differentials between 2- to 30-year notes and bonds were a measly 10 basis points (5.08 to 5.19)...Not a favorable indicator. Meanwhile, the average 30-yr home mortgage is now almost 7%.
- ◆ With only one day left in the quarter, the US central bank injected its 17th straight interest rate hike, an exercise that has more than **quintupled** short rates in under 2 years. Fed gnomes gave off less-than-usual body head. Market interpretation: This may be the end of it (for now).

US Fixed Income

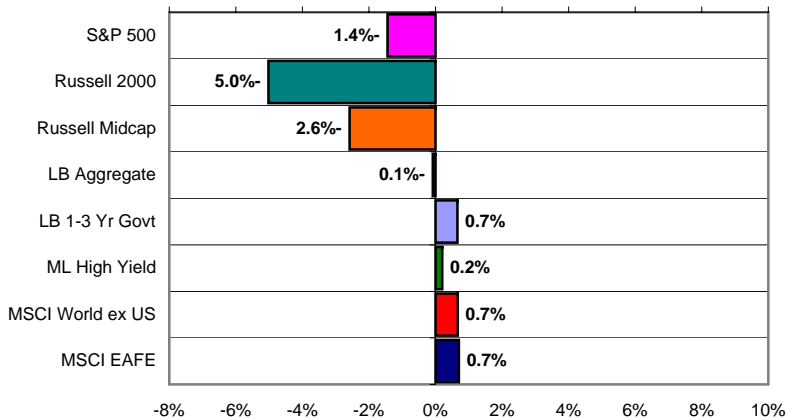


- ◆ Although reduced in strength, non-US equities were still able to turn a modest plus-side 2Q return. Broad indexes are still way ahead for the YTD.
- ◆ US hedge, and other funds clamoring for macho returns had connected their cash fire-hoses to the "emerging" markets...anything Asian, like India, China & Korea. But 30% declines in the 2nd quarter may cause these notoriously fidgety players to pack their toys. And as usual, panic-trades beget panic.
- ◆ Future mystery element: buying power of the down-trending Greenback (a tailwind for US investors). Interest rate hikes may halt/reverse this trend.

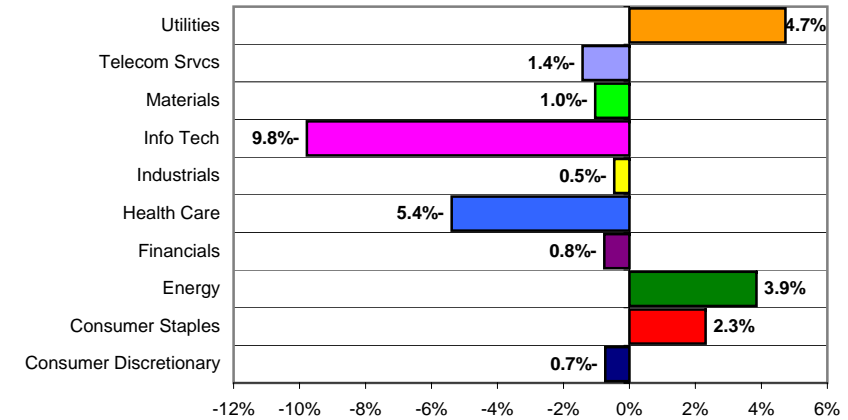
International Equity (returns measured in US Dollars)



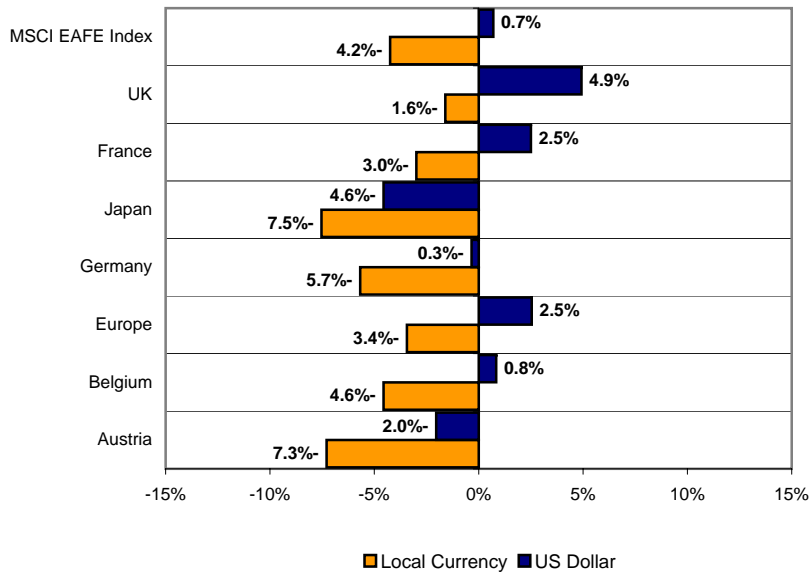
Major Market Indexes 2nd Qtr 2006



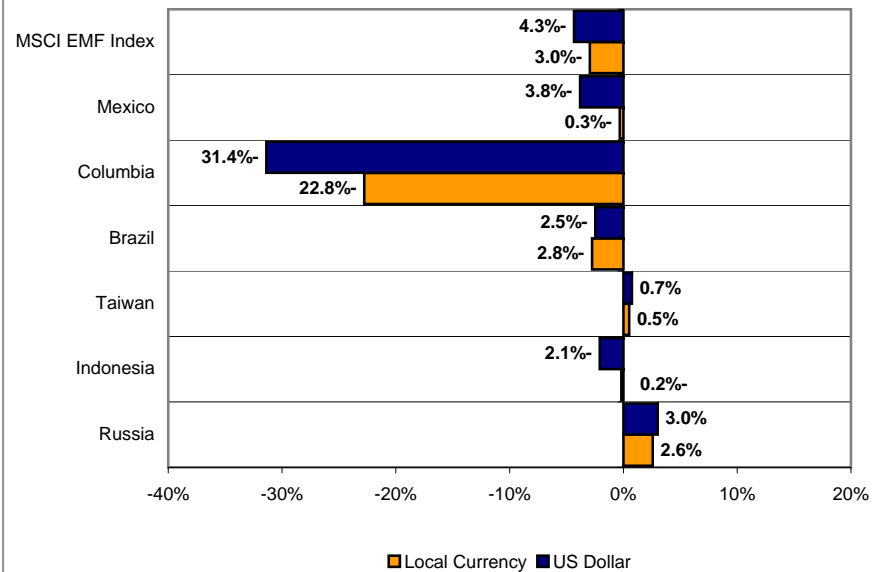
S&P Returns by Sector 2nd Qtr 2006



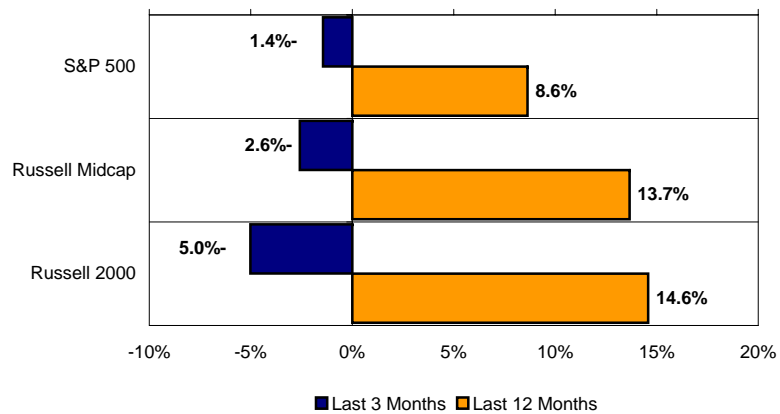
Developed Markets Returns 2nd Qtr 2006



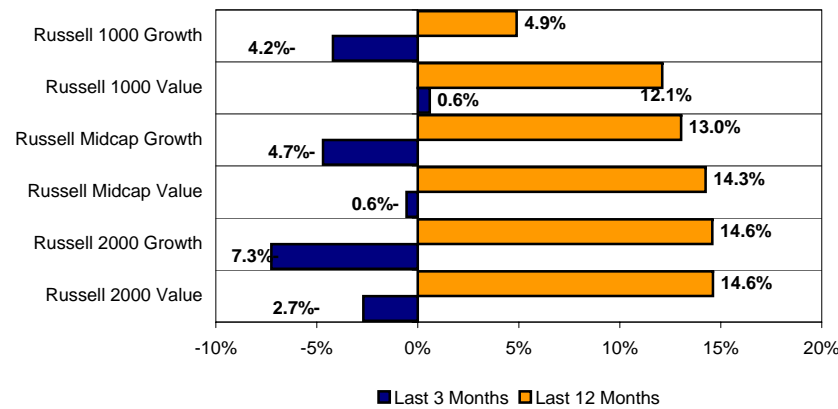
Emerging Markets Returns 2nd Qtr 2006



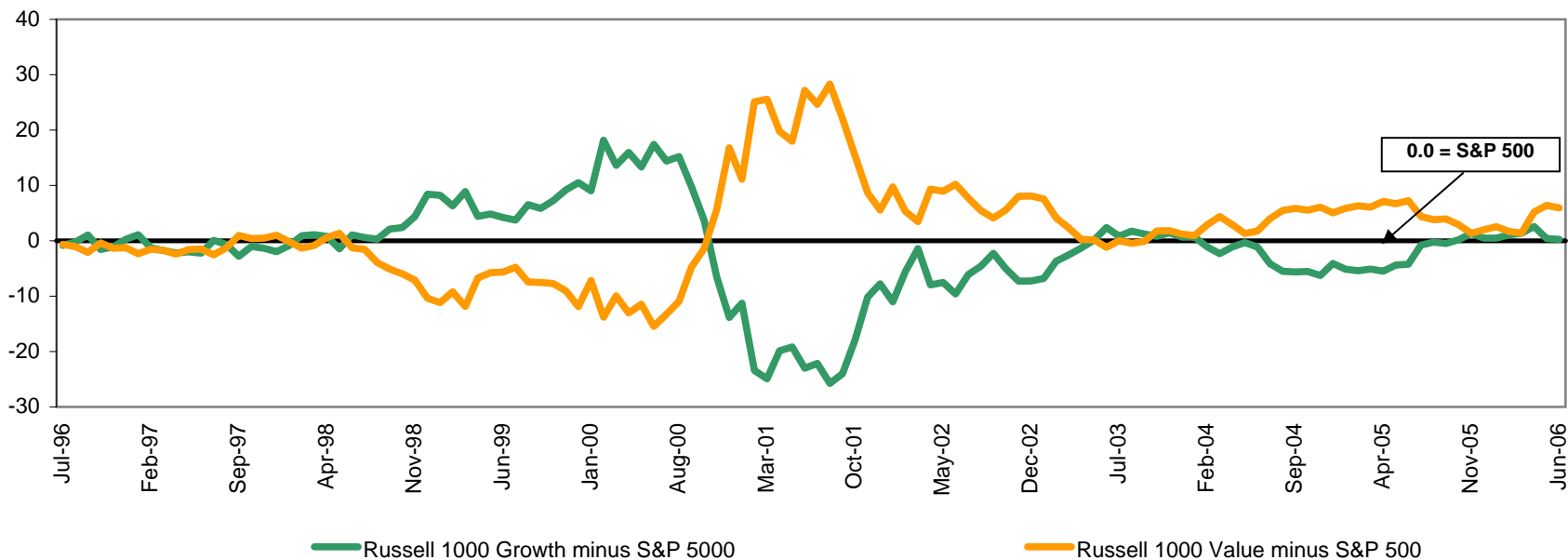
Index Returns by Market Cap 2nd Qtr 2006

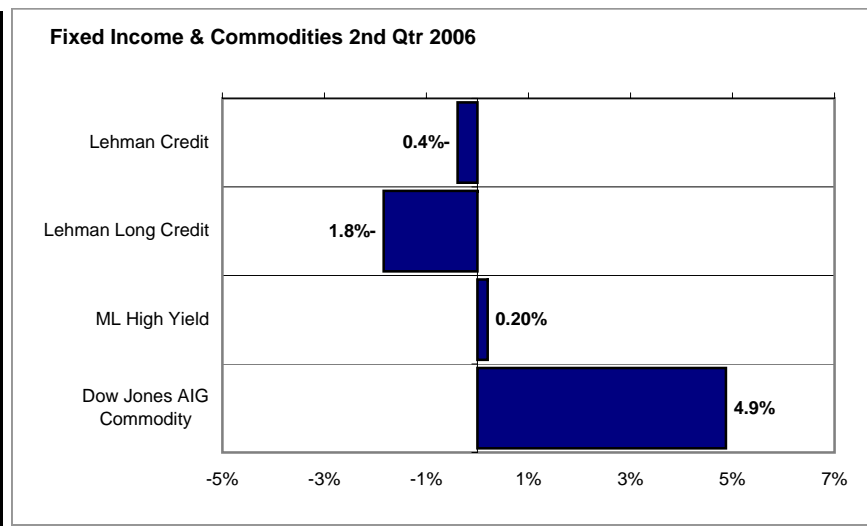
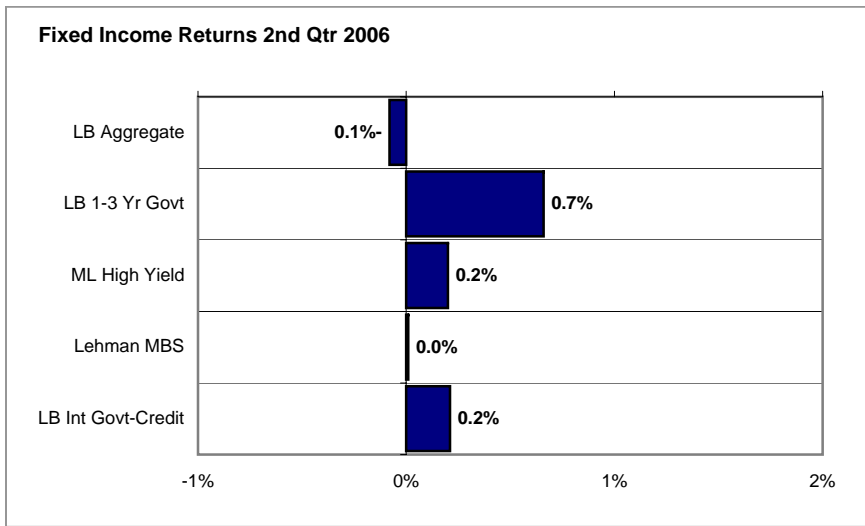


Index Returns By Style 2nd Qtr 2006



Growth vs. Value Style Stocks' Performance
(rolling twelve months compound total returns) - Using the S&P 500 Index as a Baseline





U.S. Government Bond Yields At Selected Quarter End Dates

