

## Economic Update

The third estimate for first quarter gross domestic product (GDP), released Friday by the U.S. Department of Commerce, reflected that the economy expanded at an annual rate of 2.7%. This resulted from an upward revision in imports and a downward revision in personal consumption expenditures. Earlier this week, the Federal Open Market Committee (FOMC) announced that it would maintain the target federal funds rate at 0%-0.25%. Although data continues to indicate a moderate economic recovery, the FOMC noted that low resource utilization and inflationary pressures are likely to "warrant exceptionally low levels of the federal funds rate for an extended period."

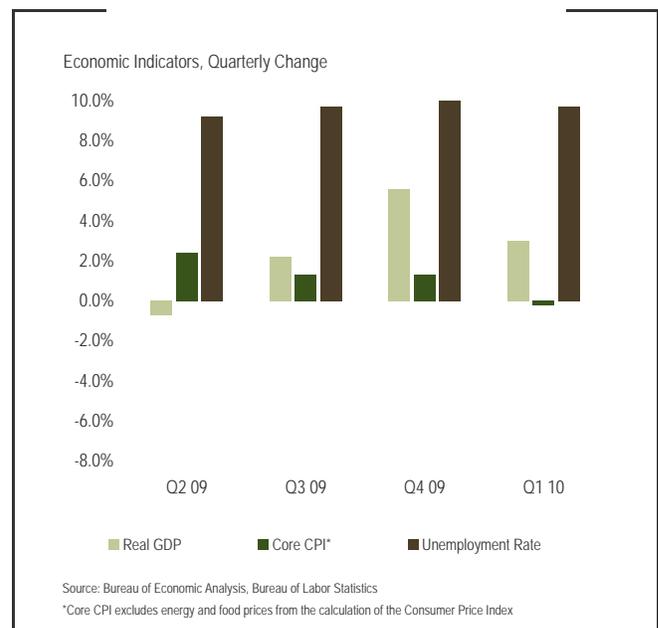
The Commerce Department reported that sales of new home declined 32.7% from April to a seasonally adjusted annual rate of 300,000. This is the lowest rate recorded since the series began in 1963, according to Bloomberg. Meanwhile, the National Association of Realtors (NAR) reported that sales of existing family homes fell 2.2% to a seasonally adjusted annual rate of 5.66 million units.

New orders for durable goods declined 1.1%, or \$2.2 billion, in May after five consecutive months of increases, according to the Commerce Department. When excluding transportation, new orders climbed 0.9% amid a 0.5% increase in capital goods orders.

Consumer sentiment rallied this month, as shown by the Thomson Reuters/University of Michigan Surveys of Consumers. The final June reading of 76.0 represented the strongest level of consumer morale since January 2008. News of improved net jobs changes were largely attributed to the better-than-expected report.

Early in the week, China pledged to gradually allow the yuan to appreciate relative the U.S. dollar by removing the fixed currency peg, a move long awaited by the international community. This revaluation is an important step to rebalancing the global economy. In China, the move is intended to capitalize on local consumer spending shifts and decrease reliance on exports. U.S. exports are expected to get a lift as Chinese consumers now will have more international purchasing power.

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, Thomson Reuters, the National Association of Realtors, The Wall Street Journal.



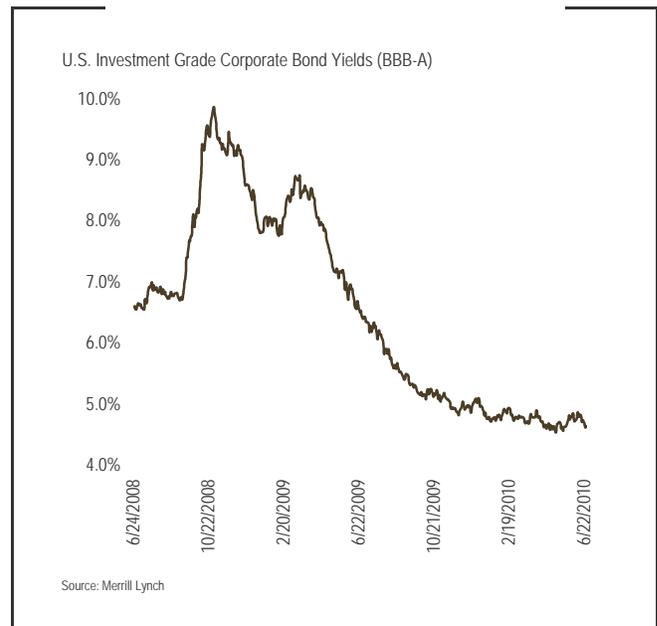
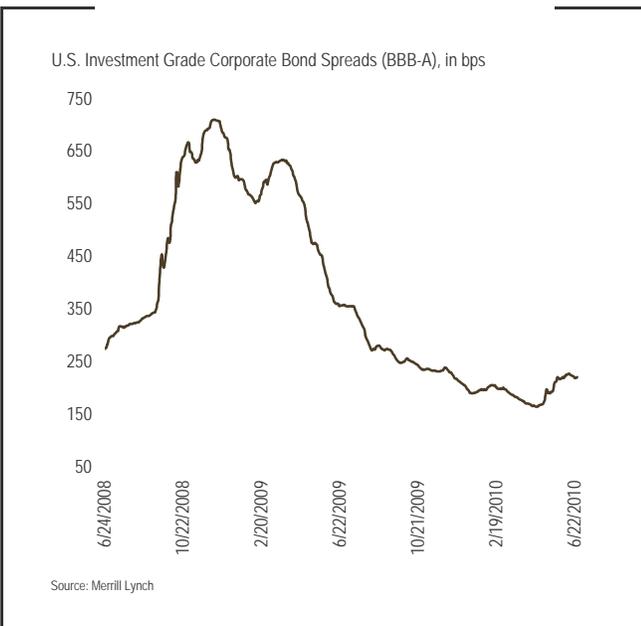
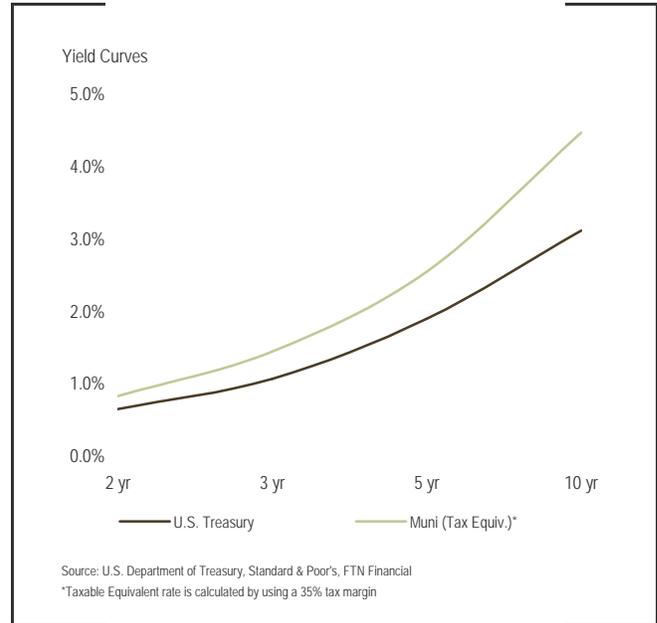
June 22 <sup>nd</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.5%
June 22 <sup>nd</sup>	Existing Home Sales, May SAAR*	5.66M
June 23 <sup>rd</sup>	MBA Purchase Applications Index, Wkly. Chg.	-1.2%
June 23 <sup>rd</sup>	New Home Sales, May	300,000
June 23 <sup>rd</sup>	EIA Petroleum Status Report, Wkly. Chg.	2.0M Barrels
June 24 <sup>th</sup>	Durable Goods New Orders, May Monthly Chg.	-1.1%
June 24 <sup>th</sup>	Initial Jobless Claims ( Week ending 6/19)	457,000
June 24 <sup>th</sup>	EIA Natural Gas Report, Wkly. Chg.	81 bcf
June 25 <sup>th</sup>	Real GDP, Q1 Quarterly Change SAAR*	2.7%
June 25 <sup>th</sup>	GDP Price Index, Q1 Quarterly Change SAAR*	1.1%
June 25 <sup>th</sup>	After-tax Corporate Profits, Q1 Annual Change	45.9%
June 25 <sup>th</sup>	Consumer Sentiment Index, May	76

Bond Market Update

U.S. Treasuries finished the week higher for the second straight week, as continued uncertainty about the global economic recovery, dovish Federal Reserve comments and nonexistent inflation supported demand for the safety of government securities. The historically steep yield curve observed several months ago is now normalizing. Although most strategists suggested a flatter yield curve would be driven by higher short-term rates, strong demand for longer-term paper has pushed yields in this segment of the market sharply lower. All else equal, a narrower yield curve indicates market participants expect weaker economic growth and decelerating inflation prospects. The spread, or difference in yields, between five-year TIPS and similar maturity Treasury notes fell to 1.59% from 1.95% at the beginning of the year, indicating traders anticipate nominal price increases going forward. Also suggesting lower inflation expectations, traders cut bets the Fed will raise rates this year, with futures on the Chicago Mercantile Exchange showing a 21% chance of an increase by December, down from 30% a month earlier. Although prices for Treasury securities could rise even more in the near-term, we continue to believe that current yields provide insufficient income to investors with long-term goals. While Treasuries may be appropriate for very conservative investors, we feel investors should consider other alternatives including munis, investment grade corporates, high yield, and foreign bonds.

Issue	6.18.10	6.25.10	Change
3 month T-Bill	0.11%	0.13%	0.02%
2-Year Treasury	0.74%	0.65%	-0.09%
5-Year Treasury	2.04%	1.90%	-0.14%
10-Year Treasury	3.24%	3.12%	-0.12%
30-Year Treasury	4.15%	4.07%	-0.08%

Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.



Stock Market Update

Domestic stocks traded lower throughout the week after a slew of contrasting economic data was released, including disappointing housing and retail data and a downgraded economic outlook from the Federal Reserve due to the impact of the European debt crisis. Markets were also dragged down by energy stocks amid increasing uncertainty regarding the future of deepwater drilling. Financial stocks rallied on Friday after a less-restrictive Wall Street reform bill made it through the U.S. House and Senate; however, the gains were not enough to pare the losses in the broader market. The S&P 500, NASDAQ Composite, and Dow Jones Industrial Average finished the week down 3.65%, 3.74%, and 2.94%, respectively.

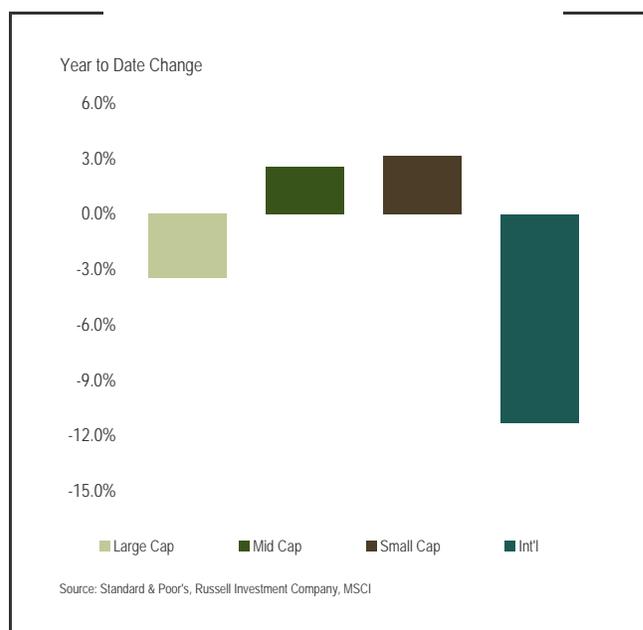
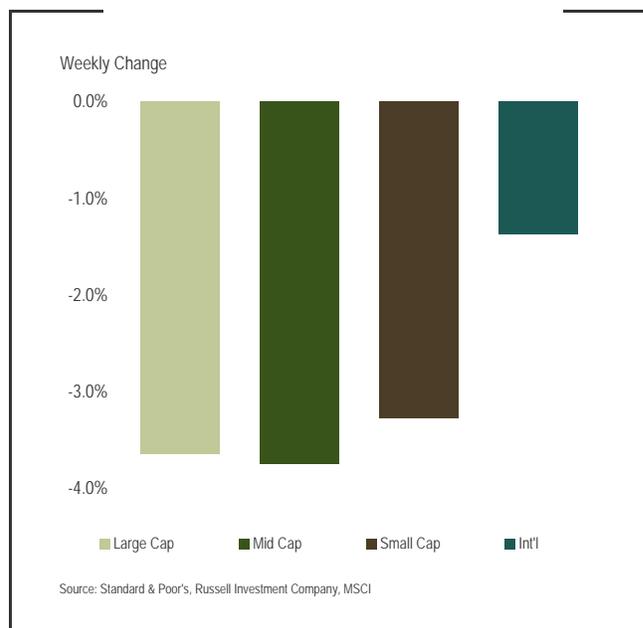
A downturn in consumer spending sent consumer components down this week, leading the decline in the Dow Jones Industrial Average. Coca-Cola Company (KO) and Wal-Mart Stores (WMT) dropped 3% and 2.5%, respectively. The decrease in spending was cited in the government's downward revision of its first-quarter economic growth estimate.

The diluted financial reform bill that passed through congress on Friday gave bank stocks a health surge after it was announced that the legislation does not ban hedge-fund and buyout-fund investing. As a result, JPMorgan Chase & Co. (JPM), Citigroup (C), Goldman Sachs Group Inc. (GS), and Morgan Stanley (MS) each gained over 3% by the end of trading Friday. Lawmakers also modified legislation that would have made it easier to sue credit-rating companies, sending Moody's Corp. (MCO) up 6.85% to lead the S&P 500.

For-profit education companies fell sharply on Friday after William Blair & Co. made a statement suggesting that the companies will continue to face scrutiny in the months to come, citing Thursday's Senate oversight hearing on the industry as a source of concern. Apollo Group Inc. (APOL) dropped more than any stock in the S&P 500, falling 4.8% on the news.

Issue	6.18.10	6.25.10	Change
Dow Jones	10,450.64	10,143.81	-2.94%
S&P 500	1,117.51	1,076.76	-3.65%
NASDAQ	2,309.80	2,223.48	-3.74%
Russell 1000 Growth	498.26	479.83	-3.70%
S&P MidCap 400	774.27	745.27	-3.75%
Russell 2000	666.92	645.11	-3.27%
MSCI EAFE	1,414.82	1,395.48	-1.37%
MSCI EM	947.20	952.13	0.52%
MSCI Small Cap	135.93	135.36	-0.41%

Prices reflect most recent data available at the time of publication  
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch.



Alternative Investments Market Update

At the height of the private equity craze in 2006 and 2007, raising cash was incredibly easy. Typically, most private equity funds have a mandate to invest all cash within the first three to five years of the funds' life. Now, private equity firms have nearly \$500 billion in cash and have limited time, not to mention opportunities, to deploy capital. Not surprisingly, in a report released by Reuters, buyout funds and private equity-backed merger and acquisition (M&A) volumes during the second quarter rose significantly. Private equity-backed M&A activity is up 125% from a year ago, and nearly 33% from the prior quarter. Early this week, Bain Capital Partners, Kohlberg Kravis Roberts (KKR), and Vornado Realty Trust announced the completion of the acquisition of Toys R Us, with each partner owning an equal share.

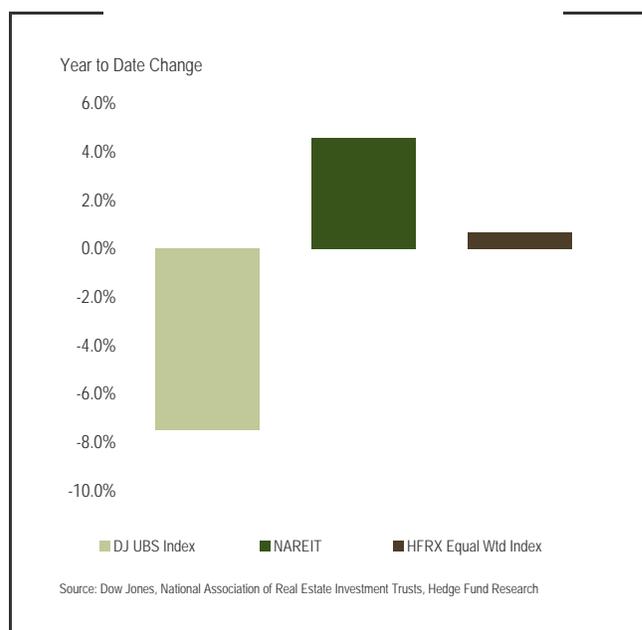
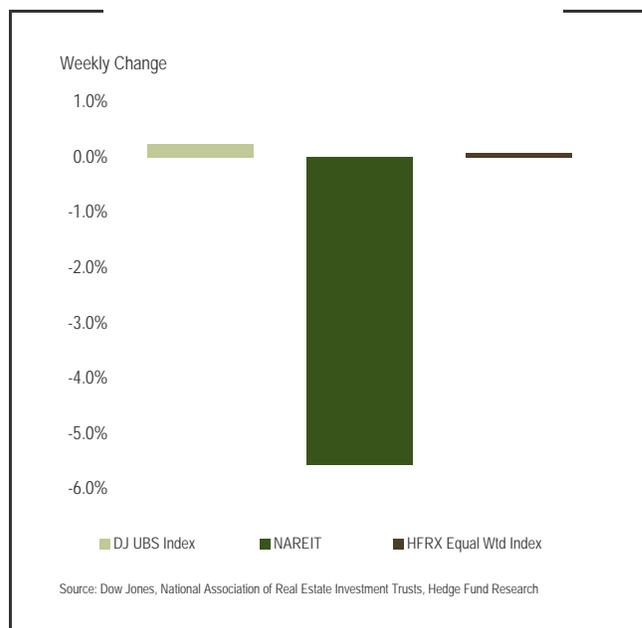
On Friday, new financial regulatory measures, which stand to be the toughest regulations since the Great Depression, were approved by key lawmakers. While the overhaul still must pass through the House and Senate lawmakers, hedge funds may benefit from the proposed "Volcker Rule." The central tenet of the Volcker Rule limits proprietary and risky derivatives trading by large financial firms to 3% of their Tier 1 capital, which will drastically scale back investment in hedge funds. Also, hedge funds under \$100 million would be required to register with the SEC, which has been fiercely resisted as it adds to overhead costs. However, some analysts predict this may have a positive impact on the hedge fund industry as a whole as star traders at large financial firms may leave and start their own funds.

Crude futures, which traded down all week on surprisingly high inventories and disappointing housing data, reached a seven-week high Friday on fears that a storm system moving through the Gulf may disrupt oil production. Meanwhile, gold traded up and down but managed to end the week flat. On Friday, August gold contracts rose nearly 1% due to U.S. first quarter GDP being revised lower and to compensate for any market-moving announcements from the G-20 summit this weekend.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,256.90	1,254.80	-0.17%
Crude Oil Futures	77.43	79.01	2.04%
Copper	290.70	310.20	6.71%
Sugar	15.38	16.39	6.57%
HFRX Equal Wtd. Strat. Index	1,118.52	1,119.33	0.07%
HFRX Equity Hedge Index	1,113.94	1,108.88	-0.45%
HFRX Equity Market Neutral	1,010.97	1,012.79	0.18%
HFRX Event Driven	1,341.89	1,344.68	0.21%
HFRX Merger Arbitrage	1,458.90	1,456.88	-0.14%
Dow Jones UBS Commodity Index	128.45	128.75	0.23%
FTSE/NAREIT All REIT	124.40	117.49	-5.55%

<sup>1</sup> Prices reflect most recent data available at the time of publication

Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Bloomberg, The Wall Street Journal, The International Monetary Fund.



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