

Asset Allocation Views

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- Today's second report on fourth quarter U.S. GDP shows that the economy declined by 6.2% in 4Q08. The decline was more severe than first believed, and the downward revisions were larger than had been forecast. Inventories and exports were the two biggest drivers of the revisions, but most components of GDP were weaker than shown in the first report.
- We now expect the economy to further contract by an annualized 5% in 1Q09 and to start a modest recovery by the second half of the year, spurred primarily by fiscal policy and initiatives to heal financial markets.
- Despite the gloom, tentative signs emerged in January of decelerating rates of decline in some macroeconomic indicators, such as purchasing management indices in the United States and several other countries. It remains to be seen whether these are early signs of global industrial production approaching a bottom, but we are monitoring them closely.
- The lack of detail in the Financial Stability Plan presented by Treasury Secretary Geithner on February 10 initially disappointed markets. U.S. equities have trended down since then.
- Near-term global economic data suggest greater than anticipated weakness. As a result, we expect the yield increase in U.S. Treasury and government-guaranteed securities, which has occurred since the beginning of 2009, to be at least partially reversed — even though the fiscal stimulus package and prospective large deficits are serious concerns for the bond markets.
- With a highly uncertain short-term outlook, we remain neutral on equities. We moved our modest tactical reserve of cash into domestic bonds as a temporary hedge against renewed “flight to safety” should the equity market underperform significantly. With valuations becoming more attractive by the day, we now await an opportunity to increase our equity position on a tactical basis.

Current Positions

	Benchmark (%)	Recommended Allocation (%)	Change from Last Move
Stocks	65.0	65.0 Neutral	Unchanged
Bonds	35.0	35.0 Neutral	Changed
Cash	0.0	0.0 Neutral	Changed

Allocation among stocks

Domestic stocks			
Large-cap core stocks	18.0	18.0 Neutral	Unchanged
Large-cap growth stocks	13.5	13.5 Neutral	Unchanged
Large-cap value stocks	13.5	13.5 Neutral	Unchanged
Mid-cap stocks	4.0	4.0 Neutral	Unchanged
Small-cap stocks	6.0	6.0 Neutral	Unchanged
International Stocks			
EAFE stocks	10.0	10.0 Neutral	Unchanged
Total stocks	65.0	65.0	

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