

Asset Allocation Views

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- On March 23 the U.S. Treasury unveiled a plan to remove distressed assets from banks' balance sheets. The plan aims to finance up to \$1 trillion in purchases of distressed and illiquid assets through a Public-Private Investment Program (PPIP). The plan also will rely on financing from the Federal Reserve and debt guarantees from the Federal Deposit Insurance Corporation.
- On March 18 the Federal Reserve announced an expansion of its quantitative easing program with \$300 billion allocated to purchase longer-term Treasury securities, and substantial expansion of existing programs to purchase agency mortgage-backed securities (MBS) and debt.
- Initial market reactions to both announcements have been positive. Optimism has been lifted by the expectation that a comprehensive government effort will finally succeed in breaking a negative feedback loop from falling output and employment to credit market conditions and consumer demand.
- Recent tentative signs of moderating decline in some economic indicators such as the U.S. purchasing managers survey, retail sales and housing starts suggest that the current sharp downturn may start decelerating in the next quarter. We expect policy actions to start producing positive effects by the second half of 2009 as financial sector healing begins.
- Internationally, trade and industrial production data remain disappointing. January industrial production fell by 31% in Japan and 12% in the European Union. The severity of the current downturn points to a global industrial production decline this quarter even greater than the 22% recorded in 4Q09.
- Following evidence of better coordination in U.S. government policy, we tactically increased our large-cap equity position by 2%. We realize that economic data still point to a substantial downside risk. However, we believe that markets may start pricing in expected policy outcomes before the economy bottoms.

Current Positions

	Benchmark (%)	Recommended Allocation (%)	Change from Last Move
Stocks	65.0	67.0 Overweight	Changed
Bonds	35.0	33.0 Underweight	Changed
Cash	0.0	0.0 Neutral	Unchanged

Allocation among stocks

Domestic stocks			
Large-cap core stocks	18.0	20.0 Overweight	Changed
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	67.0	

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