

## 1<sup>st</sup> Quarter 2006 Market Review

Equity markets are off to a strong start in 2006, posting solid returns in the face of economic uncertainty. The S&P 500 returned 3.73%, the Dow Jones Industrial Average registered a 3.66% gain, and the NASDAQ gained 6.10%. As the upward market trend persisted, market pundits debated the mixed economic statistics. While optimists pointed to recent reports reflecting contained inflation and a 5-year low for the jobless rate, skeptics cited oil prices and short-term interest rates, both of which continued to rise.

Even the Fed sent seemingly contradictory signals. Their most recent statement noted, "Core inflation has stayed relatively low in recent months and longer-term inflation expectations remained contained." However, in his first meeting as Fed chief, Ben Bernanke raised short-term rates for the 15<sup>th</sup> consecutive hike to 4.75%. The flattening of the yield curve, with slight inversions at times, hindered the bond markets as the Lehman Brothers Aggregate Bond Index lost -0.65% for the quarter. The 10-year and 30-year Treasury notes maintained their path towards 5%, ending the quarter at 4.85% and 4.89%, respectively. Inflation concerns continue to trouble the bond market and equity investors as the prices for oil, gold, and commodity prices (notably grains, copper, nickel, and aluminum) continue to rise.

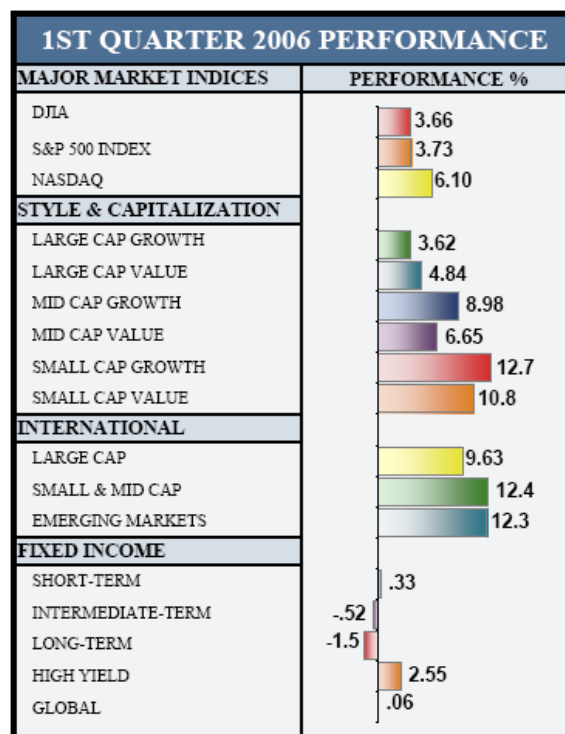
As global growth pushes forward, industries that supply the mercantilistic growth in the Asian economies, particularly China, produced strong quarterly results. Industrial materials and metals returned 9.0%, natural resources returned 8.9%, and energy returned 7.7%. Other sectors that performed well included Real Estate (15.3%) and Telecommunications (13.7%).

International markets outshined domestic holdings for the quarter as developed

international markets returned 9.6%. Better still, both international small cap and emerging markets achieved stellar quarters, returning 12.4% and 12.3%, respectively. Brazil was the top performing region reaping a 19.7% return. Investors have certainly taken note of the international outperformance as cash flow into foreign mutual funds and ETFs (exchange traded funds) outpaced cash flow into domestic funds at an unprecedented rate of more than 3 to 1 so far this year.

Although many strategists forecasted an end to the multi-year small cap dominance, the nearly 13% small cap total return outpaced the large cap sector by nearly 9% for the first three months of 2006. In addition, mid cap stocks beat large caps by approximately 5%. While growth style funds outperformed in both the small and mid cap categories, large value added about 1% over large growth.

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Source Data: Morningstar, Inc. (investment category performance)