

# Morningstar Market Commentary

# Q208

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## Trouble Behind or Trouble Ahead? Markets Grapple with Uncertainty.

### Q2 Morningstar Market Barometer



### Q2 Morningstar Indexes

<b>Stocks</b>	
US Market Index	-1.45
<b>Bonds</b>	
Core Bond Index	-1.25
<b>Commodities</b>	
Long-Only Commodity Index	21.26

Financial markets were roiled in the second quarter of 2008, as the economy continued to slog through the worst credit crisis in nearly a generation and tried to acclimate to skyrocketing energy prices without yet showing the official contraction that is the hallmark of recession. After an initial surge and subsequent plunge, the Morningstar US Market Index registered a 1.5% drop for the quarter and was down nearly 11% for the year to date. Even the bond market did not escape the climate of uncertainty, with the Morningstar Core Bond Index dropping 1.3% for the quarter. Commodities represented the lone prosperous corner of the market, as the Morningstar Long-Only Commodity Index surged 21%. This rally was however a major source of alarm for other asset classes.

Oil prices surged over \$140 per barrel, contributing to the economy's woes and to the difficulty of Bernanke's position. Economists define inflation as the condition of more money chasing the same amount of economic output. However, there's little doubt that higher energy costs are rippling through the economy and that consumers have been feeling pinched after filling their gas tanks, leading to worries of a return to 1970s-style "stagflation." During the quarter, Morningstar energy analysts increased their long-term estimates of oil and natural-gas prices putting two of the oil and gas "majors," ExxonMobil and

ConocoPhillips in 5-star territory. Although the Fed kept the short-term interest rates that it controls relatively low, there was no safety in bonds. The bond market experienced a sell-off, driving longer-term yields up as investors anticipated inflation and future rate increases. The Morningstar Core Bond Index dropped 1.3% in the second quarter.

Some savvy investors took advantage of distress in the credit markets. Warren Buffett announced in early May that his firm Berkshire Hathaway purchased \$4 billion of auction rate securities, which are essentially longer-term municipal obligations whose yields get reset in weekly auctions. (Some corporations also issue auction rate securities.) When auctions began to fail in the early part of the year and prices of these securities plummeted, Buffett pounced.

At this point, markets seem to have baked all this bad news into security prices, so even small improvements in macroeconomic and corporate health could spark a strong comeback. Sure, many individual securities are extremely tricky to evaluate right now. But pessimism surrounding broad asset classes seems overdone. We'll scan markets for such opportunities in the rest of this commentary.

## Overview

A look at sector-level performance quickly reveals where most of the market's troubles were concentrated. The financial services sector raced to the bottom, suffering losses at least twice that of any other sector. This caused the Morningstar Services Super Sector Index, of which the financial services sector is a major component, to finish last with a 7.5% slide for the quarter. The Morningstar Manufacturing Super Sector Index finished with a positive gain of 3.7%, thanks to the strength of its component energy sector. The Morningstar Information Super Sector eked out a 1% gain to finish in the middle.

## A Closer Look

**Information Super Sector** +1.0%  
Technology hardware and software sectors showed remarkable resilience to feature among the very few sectors with positive gains in the quarter. Companies in these sectors continued to benefit from healthy growth in foreign markets, smart product launches, and generally robust demand for certain niche software services and hardware devices. For example, security software provider Symantec Corp. and specialty electronics equipment maker Agilent Technologies Inc. both posted double-digit gains.

By contrast, the media sector detracted significantly from the Information Super Sector, as most areas outside of online advertising are feeling the pain from the economic slowdown. Nonetheless, the impressive showing by technology companies in this difficult environment is a promising sign that companies haven't scaled back on capital expenditures—and the Information Super Sector could well shake off the slump it has been under for most of this decade.

**Service Super Sector** -7.5%  
Financial services continued to pay a heavy price for past excesses. The sector sank 17% in the

## Q2 Morningstar Sector Delta and Return %



Sector	Quarter	1-Year	3-Year
<b>Information</b>	<b>0.95</b>	<b>-13.14</b>	<b>5.03</b>
Software	4.15	-4.54	7.23
Hardware	2.78	-9.18	6.13
Media	-5.88	-25.93	-3.30
Telecommunication	-2.40	-20.74	7.62
<b>Service</b>	<b>-7.47</b>	<b>-24.65</b>	<b>-1.55</b>
Healthcare	-0.93	-10.27	2.16
Consumer Services	-5.93	-18.89	-1.90
Business Services	4.40	-7.11	12.40
Financial Services	-16.78	-39.76	-7.85
<b>Manufacturing</b>	<b>3.69</b>	<b>4.41</b>	<b>14.90</b>
Consumer Goods	-8.10	-9.15	5.55
Industrial Materials	-5.46	-7.94	10.45
Energy	20.06	28.90	28.01
Utilities	7.08	3.61	12.16

## Morningstar Super Sectors

	P/E	P/B	Yield %	Earn Growth	Sales Growth
Information Super Sector	17.64	2.69	1.38	18.13	9.98
Service Super Sector	15.04	1.88	2.79	0.65	7.43
Manufacturing Super Sector	15.02	2.88	1.97	13.20	4.50

quarter alone, taking its year-to-date losses to 27% and its trailing one-year deficit to 40%. This dismal run has severely wrecked the sector's longer-term trailing returns as well, ranking it rock bottom among all Morningstar sector indexes. Bad loan losses continued to mount in the quarter, forcing banks to desperately seek still more capital, making investors weary of the sector's seemingly never-ending plight. Most observers agree that many of the highly leveraged, securitization-based business models that led to the sector's dramatic earnings growth earlier this decade are broken. That said, the sector has been punished down to attractive valuations. Prominent names such as Citigroup, Washington Mutual and Lehman Brothers are selling at prices that are down 70% to 90% from their previous peaks. Not an easy call at this time by any means, but those braving this sector now could reap big gains when the cycle even hints at turning.

**Manufacturing Super Sector** +3.7%  
Once again, the story here was energy. The sector posted a 20% gain for the quarter, leaving all other sectors in the dust, and boosting its commanding lead in long-term trailing returns as well. Energy prices rallied furiously in the quarter, breaking records almost on a daily basis as fears of a permanent supply shortfall gripped markets. Many observers point out, however, that the stocks of energy companies are still being valued at a much lower oil price assumption than current spot or futures prices for the commodity. This could mean either that these companies are still undervalued, or that current oil prices are unsustainably high, which could spell a sudden end to the rally. Utilities were another winning sector that contributed to the Manufacturing Super Sector's top finish. Low-cost nuclear power generators such as Exelon Corp. and Entergy Corp. led the rally.

## Overview

**Growth stocks returned with a vengeance after their first-quarter hiatus, resuming the lead they had taken last year. The Morningstar US Growth Index's 5.3% gain in the quarter trounced the Morningstar US Value Index's 7% loss. The Morningstar US Core Index finished in the middle with a 2.8% slide. Quarterly results ranged more narrowly among market cap indexes, with the Morningstar Mid Cap Index's 2.5% gain earning it the top spot while the Morningstar Large Cap Index slid by an almost identical amount. The Morningstar Small Cap Index treaded water with a 0.8% loss.**

## A Closer Look

### Morningstar Value Index -7.0%

The Morningstar US Value Index's performance in the quarter was essentially a tale of two forces: rampant commodity prices on one hand and sinking banking prospects on the other. While value stocks in the energy and industrial materials sectors performed strongly, their contribution to the US Value Index was overwhelmed by massive losses in financial services stocks. Chevron Corp. and ConocoPhillips rose 17% and 25% respectively, and United States Steel Corp. did even better by soaring 46%. Such stocks could not hold down the fort, however, against the negative impact of financials like Bank of America Corp. and American International Group Inc., which lost 36% and 38% respectively, and bond insurers AMBAC Financial Group Inc. and MBIA Inc., both losing in excess of 70%. These traditional value stocks had a great run for most of this decade, after having avoided the market excesses of the late 1990s, but are now paying dearly for excesses of their own. Indeed, the fate of the US Value Index could be much worse if industrial commodity-related stocks had tanked like they often do in the face of an economic downturn. But as demand continued to be strong, especially in emerging markets,

## Trailing Returns

1-Year				3-Year				5-Year			
	Value	Core	Growth	Value	Core	Growth	Value	Core	Growth		
Large	-21.92	-9.09	-4.00	2.99	5.67	5.28	7.97	8.18	5.47		
Mid	-24.06	-13.09	-0.43	0.87	6.39	12.19	10.22	12.26	14.44		
Small	-23.06	-17.66	-10.66	0.04	4.58	5.60	9.46	12.09	10.24		

## Morningstar Style & Cap Indexes

	P/E	P/B	Yield %	Earn Growth	Sales Growth
Morningstar Value	11.44	1.49	4.24	-0.14	2.08
Morningstar Core	15.63	2.64	1.88	13.78	10.15
Morningstar Growth	21.72	3.93	0.68	19.88	11.25
Morningstar Large Cap	15.27	2.50	2.35	9.88	8.34
Morningstar Mid Cap	16.25	2.18	1.72	7.99	5.31
Morningstar Small Cap	15.53	1.73	1.67	-7.57	-1.40

and supply remained tight, commodity stocks defied the economic cycle.

### Morningstar Core Index -2.8%

A number of bellwether core stocks such as Coca-Cola Co., PepsiCo Inc., and Procter & Gamble Co. that could have served as safe havens during this time of market turmoil actually fell sharply this quarter, hurting the US Core Index. Sky-high commodity prices have sharply raised these companies' input costs, which they are loath to pass on at a time when consumers are cutting back on spending. Investors feared these causes would lead to slimmer profit margins. Moreover, the US Core Index has its share of banks, including the likes of Merrill Lynch & Co. Inc., Morgan Stanley (both fell 21% in the quarter), and Lehman Brothers Holdings Inc. (which slumped 47%). Industrial behemoth General Electric Co. was also among the biggest detractors, dropping 27% after its financial services unit dragged down

quarterly earnings. On the positive side, the US Core Index has its share of energy companies such as Halliburton Co. that mitigated the damage. Brewer Anheuser-Busch Cos. Inc. also contributed strongly after multinational rival InBev tabled an acquisition offer.

### Morningstar Growth Index +5.3%

After being bogged down earlier in the year, growth stocks staged a remarkable comeback in the second quarter to take a firm lead over core and value rivals. The Morningstar US Growth Index has badly lagged its value and core rivals for the most of this decade, and many observers have been calling for a switch in leadership for some time. The US Growth Index did lead decisively in 2007, alerting investors to the possibility of a sustained rally. This quarter's outperformance was indeed strong enough to put the US Growth Index in the lead in three-year trailing returns as well, and pulled it closer to the US Value Index's five-year tally. What a difference a quarter makes indeed. Prominent growth stocks such as

Apple Inc. (which rose 17% in the quarter) and Google Inc. (which spiked 20%) have amply shown their prowess in this year's troubled market. Apple rolled out new versions of its near-iconic consumer electronics devices, and Google's stranglehold of the Internet search and advertising industry continued to generate explosive revenue and earnings growth.

These companies exemplify the appeal of genuine growth stocks that can generate secular growth opportunities in a variety of market conditions. Such stocks are truly appreciated when overall corporate earnings face a challenging environment. The comeback in growth stocks over the past year and a half also drives home the importance of style diversification in any portfolio, something that may have gotten sidelined after years of dominance by value.

**Morningstar Large Cap Index** -2.6%  
In what might seem a somewhat paradoxical result for a period of intense market unrest, large-cap stocks finished last in the quarter. Once again, financial services stocks were instrumental, with several prominent names such as Washington

Mutual Inc., National City Corp., and Fifth Third Bancorp all collapsing more than 50%. Large energy and technology companies, by contrast, stemmed the damage. Nonetheless, many observers believe that after several years of a virtually unbroken losing streak, large cap stocks in general are due for a sustained comeback.

**Morningstar Mid Cap Index** +2.5%  
As has often been the case for the past several years, mid-cap stocks were once again in the market's sweet spot. A host of energy and natural resources companies made bumper contributions in the quarter. Analysts' forecasts of permanently higher coal prices drove Arch Coal Inc. and Consol Energy Inc. up 73% and 63% respectively. Still more impressive, iron ore miner Cleveland-Cliffs Inc. virtually doubled in price after news that rival Rio-Tinto had negotiated an almost 80% increase in ore prices with a major steelmaker. The quarter's gains only added to mid-cap stocks' substantial lead in long-term trailing returns.

**Morningstar Small Cap Index** -0.8%  
Small-cap stocks held up relatively well considering the climate of economic uncertainty.

Energy and natural resources companies were big contributors here as well, helping overcome most of the drag imposed by small-cap financials. Coal producer Alpha Natural Resources was easily the most significant contributor, soaring a spectacular 140%. The company was able to make the most of the spike in coal prices due to its high-margin niche in premium metallurgical coal that is used in steel production. Overall, however, small-cap stocks warrant considerable caution at this time. Years of dominance over large-cap stocks and a buy-out boom (which ended last year with the advent of the credit crisis) have left relative valuations rich, and these companies remain more vulnerable in a credit-starved, low-growth economy.

## Fund Categories and Benchmarks

The average return of actively managed funds exceeded the return of the relevant Morningstar Index in four out of nine style-cap benchmarks. As is often the case, the benchmarks with the biggest losses were the easiest for active managers to beat. For example, the widest margin of victory was in the small-value category, with 97% of active managers beating the Morningstar Small Cap Value Index, which was the worst-performing index in the style box. Managers can add value by avoiding troubled sectors like financials and favoring winning areas of the market such as energy and industrial materials.

## Active vs. Passive

	Value	Core	Growth
Large	87.73 -7.43	89.32 -4.51	18.18 4.34
Mid	93.08 -4.75	39.62 2.67	13.10 9.07
Small	96.99 -8.13	45.92 1.39	35.74 4.03

☑ Actively managed mutual funds outperforming their respective benchmark (%)<sup>1</sup>

▲ Index Returns (%), 2nd Quarter, 2008

<sup>1</sup>Includes the oldest share class for all U.S. diversified mutual funds with at least a one-year history. As of June 30, 2008 there were 2,611 eligible funds. Morningstar classifies funds into style categories based on the average style score (using the same 10-factor methodology as underlying benchmarks) of all available portfolio holdings over a three-year period.

## Overview

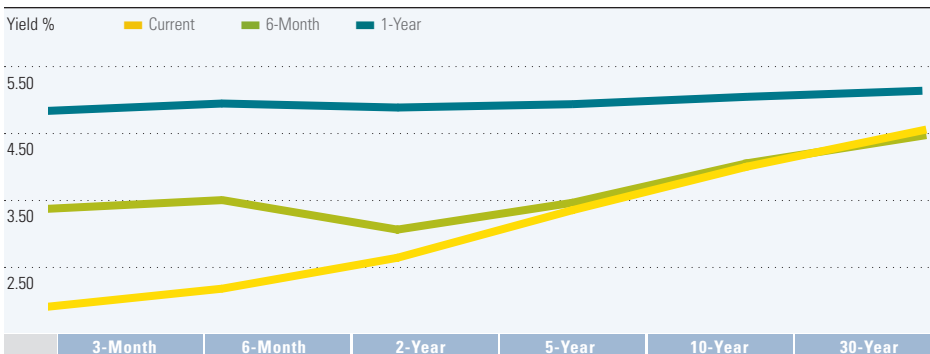
**For a key part of the bond market, it's déjà vu all over again. Just three months ago, the U.S. Treasury market had capped a terrific quarter as investors fearful of various developing nightmares—a mortgage crisis, implosions in the market for CDOs (collateralized debt obligations), huge Wall Street write-offs—drove yields down to historic levels. But by the end of June, much of that rally, especially among Treasuries with maturities of two years or longer, evaporated. As of June 30, their yields were almost exactly the same as where they were on the first trading day of 2008.**

## A Closer Look

It would be foolish to say authoritatively what drove the market for such a short period, especially this year given contradictory trends. While the economy has shown numerous signs of weakness, and many investors consider the past several months to have been a recession, many commodity prices—especially oil, but also those underlying food prices—have been soaring. Those inflation drivers have injected fear into a Treasury market that, under so-called 'normal' circumstances, would be delivering falling yields and fat returns. Instead, yields have risen since March, and while most long maturity bonds suffered, Treasuries in the 'middle' range—between seven and 10 years—saw losses of 3.5% or more.

One might logically assume then that it's all wine and roses for Treasury Inflation-Protected Securities (TIPS), and to a large degree that would be right. Over 12 months, TIPS have enjoyed whopping gains of roughly 15%. Given the confusing economic picture, though, the market has been more circumspect lately. Individual TIPS issues have been moving in different directions depending on their maturities. By contrast, there hasn't been much good news among global bond markets. Those accustomed to watching the U.S. dollar weaken over and over—driving up

## Shifting Treasury Yield Curve



## Morningstar Bond Indexes

		Par Value (\$bil)	Credit Quality	Average Coupon	Yield to Maturity	Average Duration	Average Maturity
<b>Broad Market</b>	Core Bond	7,880	AA+	5.35	4.92	4.75	7.42
<b>Sector</b>	US Govt Bond	2,700	AAA	4.75	3.45	4.88	6.67
	Corporate Bond	1,752	A	6.00	6.09	5.99	10.14
	Mortgage Bond	3,428	AAA	5.49	5.57	4.01	6.66
<b>Maturity</b>	Short-Term Core Bond	1,733	AA+	4.70	3.47	2.08	2.34
	Interm. Core Bond	4,455	AAA	5.31	5.31	4.11	6.31
	Long-Term Core Bond	1,680	AA	6.11	5.39	9.00	15.21
<b>Inflation Prot. Secs.</b>	TIPS	374	AAA	2.30	1.05	7.31	8.68
<b>Global Bond</b>	Global Govt Bond	15,534	AA+	4.61	3.28	5.07	6.95
	Global Govt ex-US	13,057	AA+	4.58	3.26	5.06	6.92
	<i>Eurozone</i>	59	AAA	6.12	6.58	4.12	5.31
	<i>Swiss</i>	3,019	AAA	9.12	3.29	2.23	2.74
	<i>UK</i>	4,758	AA+	4.48	4.87	5.84	8.67
	<i>Australasian</i>	4,481	AA-	1.53	1.25	5.73	6.98
	<i>Canadian</i>	84	AAA	3.38	3.16	6.75	8.71
<i>Japanese</i>	657	AAA	5.24	4.96	9.16	15.24	
<b>Emerging Market</b>	Composite	321	BB+	8.12	7.49	6.12	11.49
	<i>Sovereign</i>	237	BB+	7.97	6.74	6.81	13.53
	<i>Corporate</i>	83	BB	8.54	9.91	3.82	4.78

returns for U.S. investors with unhedged foreign assets, even when local markets have been weak—saw a different show in the second quarter. This time around, local bond markets fell on fears of inflation, while the U.S. dollar enjoyed a rebound against most currencies from its otherwise consistent slide. Overall, the Morningstar Global ex-US Government Bond Index USD fell 5.7%, a painful drop for a single quarter. The dollar-issued debt of many emerging markets governments and corporations has

been volatile as well this year, but relative stability among large issuers has kept those markets' overall returns relatively even. Brazil and Russia were up 1.5% and just about flat for the quarter, respectively, while Mexico's bonds fell 2%. Those three together comprise nearly 40% of the Morningstar Emerging Markets Composite Bond Index. Big drops of 7.5% and 8.2% in small markets such as Pakistan and Vietnam have therefore had little impact on the overall benchmark.

## Overview

**Now we come to the one asset class that has been unabashedly triumphant amid all the trouble elsewhere—not to mention a major source of the trouble itself. The Morningstar Long-Only Commodity Index surged 21% in the quarter, taking its year-to-date gains to 33% and its one-year tally to a whopping 64%. While the relentless record-breaking run in oil prices dominated the daily headlines, natural gas, corn, and wheat prices also soared at unprecedented rates.**

## A Closer Look

The commodities run has had global economic consequences. Soaring food prices have provoked violent public demonstrations in developing countries, and consumers in developing and developed markets alike have protested the spikes that high energy prices have triggered in their costs of living and doing business. Many have blamed the sudden price jumps on “speculators,” including pension funds and other institutional investors who gain exposure to commodities through index futures. That growing outcry has led to a call from some quarters—including prominent legislators—to curtail or even outlaw investments in commodity futures.

Occasional bouts of inflated market valuations and investor mania can visit any asset class, including commodities. The fact remains though that there are plenty of “rational” arguments in support of high energy prices. The economies of China and India have expanded on a massive scale in the past few years, which has raised living standards for hundreds of millions of people—and consequently raised demand for food and energy. That very growth can feed on itself—something usually considered a virtuous cycle—as vibrant economies typically create a

## Morningstar Commodity Index Returns %

	Quarter	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Long-Only	21.26	32.51	63.84	24.10	24.65	17.75	12.90
Long/Flat	19.93	29.27	56.16	20.05	19.17	16.56	12.63
Long/Short	18.63	28.43	51.55	16.79	15.52	16.97	12.86
Short/Flat	-1.12	0.07	-0.26	0.84	-0.53	3.58	3.99
Short-Only	-16.96	-23.32	-34.01	-12.42	-15.65	-8.54	-3.78
Agriculture	17.49	27.28	65.64	22.77	16.54	4.92	5.38
Energy	36.30	58.23	97.53	19.48	25.67	26.45	15.86
Livestock	7.53	-1.13	-6.10	2.96	9.92	6.32	4.25
Metals	0.74	15.15	34.94	36.06	31.50	15.34	11.37

greater need for basic materials and resources. Meanwhile, years of under investment in energy exploration and a shortage of drilling equipment and qualified manpower has meant that, regardless of how long the resources buried underground will or won't continue to last, day-to-day supply has not kept up with demand.

Still, high prices have a way of driving new investment in energy sources. So when new supply does eventually come on line, and consumers do gradually change their energy usage patterns in response to high prices, the supply-demand imbalance could possibly correct, and prices could come down. It's also quite possible that already-high, and rising prices will eventually have a braking effect on the very economies that have been generating such insatiable demand. At some point, energy costs could easily become prohibitive, even for the ferocious economies of China and India. Meanwhile, it is hard to deny that commodities have fulfilled their designated role in portfolio diversification.

## Conclusion

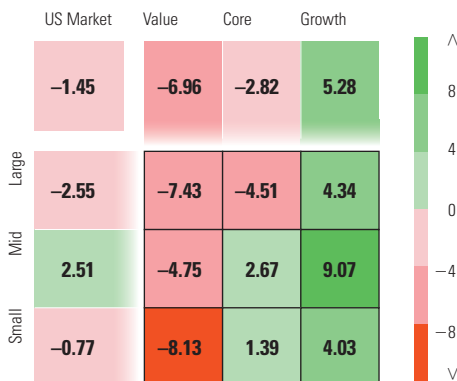
Nothing since the bear market of 2000–2002 comes close to the slate of multiple threats that markets are dealing with right now. A weak dollar, a slumping housing market, distressed financial institutions, consumers and corporations squeezed by record fuel and input prices, job losses—all point to the risk of a prolonged slowdown in the U.S. economy. After all, when Japan experienced a similar collapse in property prices and bank loans in the early

1990s, the country went through well more than a decade-long slump.

Markets do have a couple of key advantages to battle this crisis, however. Broad swaths of the corporate sector outside the financial services arena are in relatively solid financial health, with cash saved up from the strong run in corporate profits until the crisis hit. Moreover, the “decoupling” thesis, which claims that emerging markets can sustain their streak of robust growth in the face of a slowdown in the U.S., does have some basis. In that scenario, demand from emerging markets would keep the global economy and corporate profits humming. Indeed, U.S. companies geared to the global economy have continued to report surprisingly strong earnings.

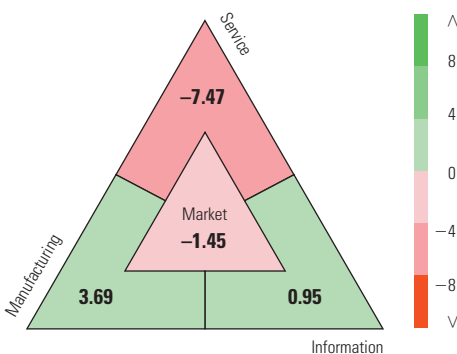
Until the credit crisis broke last year, all manner of risk-taking was handsomely rewarded. High-yield bonds, small-cap stocks, highly leveraged debt instruments etc. were all paying off, and investors did not need to be very discriminating in picking through risky assets. It is probably safe to say that we have entered a different era now, one in which investors will need to take more calculated risks. The rally in growth stocks over the past year and a half has perhaps shown a glimpse of things to come; market leadership could well be switching over to higher-quality assets. ■■■

### Q2 Style Indexes



Index	Total Returns %					Price/Earnings	Price/Book	Yield%	5-Yr Earn Growth
	Quarter	1-Year	3-Year	5-Year	10-Year				
<b>Morningstar US Market</b>	<b>-1.45</b>	<b>-12.24</b>	<b>5.15</b>	<b>8.71</b>	<b>3.48</b>	<b>15.48</b>	<b>2.36</b>	<b>2.17</b>	<b>7.88</b>
Large Cap	-2.55	-11.76	4.86	7.40	2.12	15.27	2.50	2.35	9.88
Mid Cap	2.51	-12.51	6.63	12.53	7.06	16.25	2.18	1.72	7.99
Small Cap	-0.77	-16.80	3.61	10.78	6.68	15.53	1.73	1.67	-7.57
US Value	-6.96	-22.37	2.42	8.62	4.95	11.44	1.49	4.24	-0.14
US Core	-2.82	-10.41	5.76	9.27	4.70	15.63	2.64	1.88	13.78
US Growth	5.28	-3.76	6.77	7.76	-0.14	21.72	3.93	0.68	19.88
Large Value	-7.43	-21.92	2.99	7.97	4.07	11.52	1.60	4.41	0.79
Large Core	-4.51	-9.09	5.67	8.18	3.43	15.30	2.79	2.06	14.58
Large Growth	4.34	-4.00	5.28	5.47	-2.17	21.05	4.09	0.82	26.79
Mid Value	-4.75	-24.06	0.87	10.22	7.11	11.35	1.33	3.79	1.35
Mid Core	2.67	-13.09	6.39	12.26	7.74	16.75	2.43	1.37	12.45
Mid Growth	9.07	-0.43	12.19	14.44	5.48	23.98	3.89	0.34	21.81
Small Value	-8.13	-23.06	0.04	9.46	7.67	10.84	1.11	3.79	-4.73
Small Core	1.39	-17.66	4.58	12.09	9.71	16.60	1.89	1.21	11.11
Small Growth	4.03	-10.66	5.60	10.24	2.80	23.08	2.88	0.26	-8.85

### Q2 Sector Indexes



Index	Total Returns %					Price/Earnings	Price/Book	Yield%	5-Yr Earn Growth
	Quarter	1-Year	3-Year	5-Year	10-Year				
<b>Information</b>	<b>0.95</b>	<b>-13.14</b>	<b>5.03</b>	<b>6.28</b>	<b>0.24</b>	<b>17.64</b>	<b>2.69</b>	<b>1.38</b>	<b>18.13</b>
Software	4.15	-4.54	7.23	7.53	0.86	19.75	4.27	0.79	19.53
Hardware	2.78	-9.18	6.13	7.68	2.39	18.73	3.31	0.89	21.93
Media	-5.88	-25.93	-3.30	-0.68	-1.74	13.96	1.44	1.12	17.64
Telecommunication	-2.40	-20.74	7.62	8.31	-2.56	15.86	2.02	3.90	7.11
<b>Service</b>	<b>-7.47</b>	<b>-24.65</b>	<b>-1.55</b>	<b>3.92</b>	<b>2.90</b>	<b>15.04</b>	<b>1.88</b>	<b>2.79</b>	<b>0.65</b>
Healthcare	-0.93	-10.27	2.16	3.99	3.42	17.76	3.06	1.51	11.10
Consumer Services	-5.93	-18.89	-1.90	5.08	3.55	16.50	2.47	1.66	5.87
Business Services	4.40	-7.11	12.40	12.87	3.81	20.35	2.99	1.02	-2.37
Financial Services	-16.78	-39.76	-7.85	0.69	1.71	11.55	1.19	5.08	-2.07
<b>Manufacturing</b>	<b>3.69</b>	<b>4.41</b>	<b>14.90</b>	<b>17.47</b>	<b>7.96</b>	<b>15.02</b>	<b>2.88</b>	<b>1.97</b>	<b>13.20</b>
Consumer Goods	-8.10	-9.15	5.55	8.34	3.71	15.34	3.41	2.70	8.94
Industrial Materials	-5.46	-7.94	10.45	13.67	5.36	14.84	2.65	2.18	13.49
Energy	20.06	28.90	28.01	31.27	16.08	14.99	3.29	1.11	15.76
Utilities	7.08	3.61	12.16	16.66	8.17	15.06	1.94	3.08	13.09

### Bond Indexes

	Quarter	YTD	1-Year	3-Year	5-Year
Core	-1.25	1.42	8.00	4.30	4.05
US Government	-2.06	2.10	10.18	4.61	3.81
Corporate	-0.71	-0.16	4.22	2.96	3.43
Mortgage	-0.79	1.64	7.97	4.69	4.55
Short-Term	-0.94	2.02	7.34	4.69	3.40
Intermediate Term	-1.11	1.63	8.18	3.68	4.56
Long-Term	-1.90	0.36	8.37	3.02	4.00
Global Govt ex-US	-5.69	4.90	18.23	5.78	6.34
EM Composite	-0.39	0.04	4.18	6.99	9.18

### Commodity Indexes

	Quarter	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Long-Only	21.26	32.51	63.84	24.10	24.65	17.75	12.90
Long/Flat	19.93	29.27	56.16	20.05	19.17	16.56	12.63
Long/Short	18.63	28.43	51.55	16.79	15.52	16.97	12.86
Short/Flat	-1.12	0.07	-0.26	0.84	-0.53	3.58	3.99
Short-Only	-16.96	-23.32	-34.01	-12.42	-15.65	-8.54	-3.78
Agriculture	17.49	27.28	65.64	22.77	16.54	4.92	5.38
Energy	36.30	58.23	97.53	19.48	25.67	26.45	15.86
Livestock	7.53	-1.13	-6.10	2.96	9.92	6.32	4.25
Metals	0.74	15.15	34.94	36.06	31.50	15.34	11.37