



Fixed Income Commentary

The Barclays Aggregate Bond Index managed to post a modest gain of .20% for the fourth quarter of 2009 and 5.93% for the year. Behind these figures are far more dramatic trends and changes. As the economy and financial markets have shown signs of improvement throughout the year, so too have investors willingness to take on risk. As a result, corporate bonds continued to rally with spreads narrowing along the curve. The largest moves were seen is the lower end of the credit spectrum. Rates on US Treasuries crept higher, particularly longer dated maturities leading. to an increasing steepness to the yield curve. It's difficult to know how much of the increase in rates is a function of true inflationary expectations or simply a result of the enormous amounts of new issuance. In either case, we continue to shun US Treasuries and must hope foreign buyers continue to support our massive spending.

Looking into 2010, it will be difficult for the fixed income market to match last years performance. In addition to corporate bonds which we continue to believe will performance relatively well, we will seek bonds with features such as "steps" that perform well in a rising interest rate environment. Corporations have shown considerable discipline and have taken a number of steps through the recession. This behavior has improved their balance sheets which should please the fixed income market. We have not seen the same behavior from the US Government in dealing with its financial challenges.

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