

Capital Markets Review

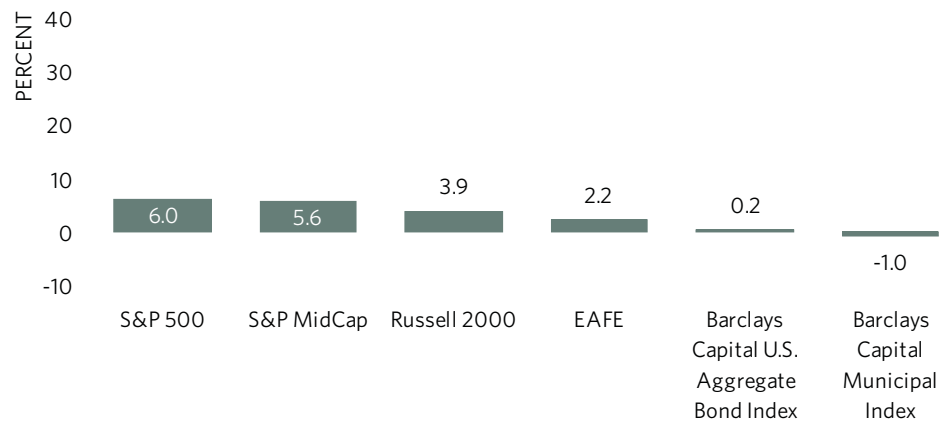


Fourth Quarter 2009

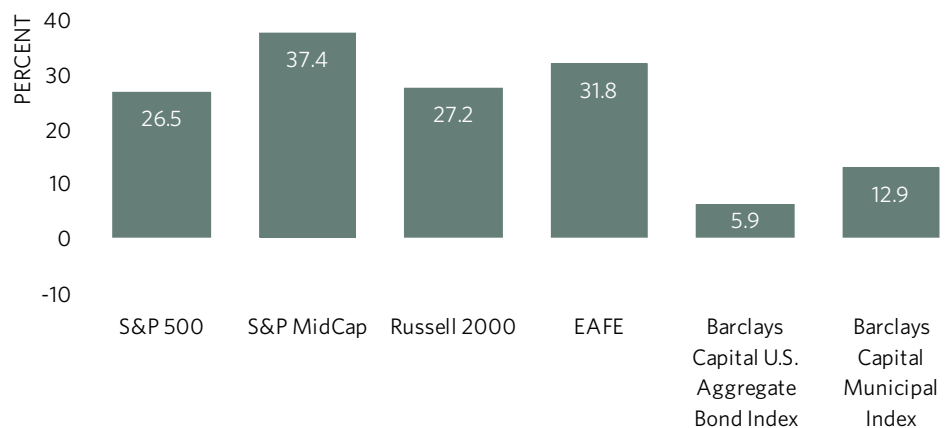
The stock market rally that began in March continued through the fourth quarter. Despite persistent concerns among investors about obstacles to sustained economic growth, the S&P 500 rose 6.0% during the fourth quarter, bringing the total return for the year to 26.5%. Earnings reports continued to exceed expectations, while numerous economic reports showed signs of improvement. The unemployment situation, however, remains troubling. Not surprisingly, positive news on the economy resulted in a rise in Treasury yields. Although core inflation rates remained stable, many bond market participants worry that the current expansive Federal Reserve policies will ultimately prove inflationary. The total return of the Barclays Capital Aggregate Bond Index was 0.2% for the quarter and 5.9% for the year.

Foreign equity markets benefited from earnings improvements and signs of a turnaround in their economies. The total return of EAFE in U.S. dollar terms was 2.2% during the fourth quarter and 31.8% for the year, boosted by the depreciation of the dollar. EAFE's return in local currency terms was 24.7% in 2009, slightly below the return of the S&P 500. Emerging markets posted yet another strong quarter. The total return of the MSCI Barra Emerging Markets Index was 78.5% for the year.

Fourth Quarter Returns



1-Year Returns



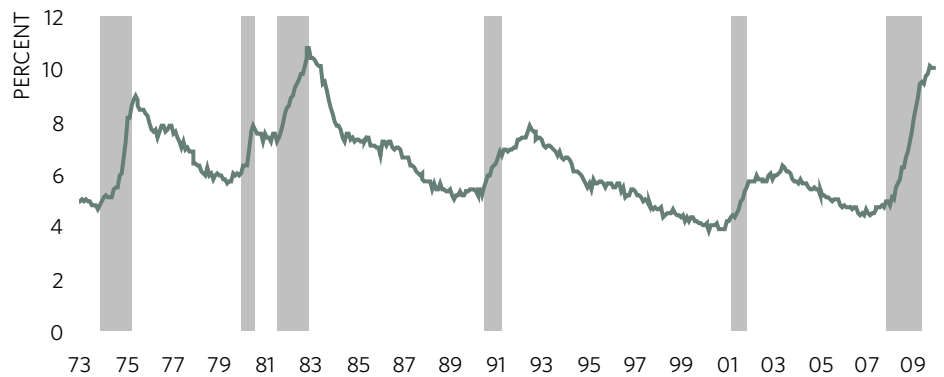
U.S. Economy

The small decline in payroll employment in December was a clear improvement compared to the substantial declines during the financial crisis. Unemployed workers, however, increased by 8.5 million during the last three years, and the unemployment rate stood at 10.0% as of year end, with few signs of new job opportunities. By any standard, the employment situation remains weak and is expected to improve relatively slowly.

Fortunately, many other signs point to an improving economy. The Index of Leading Economic Indicators, the Institute for Supply Management's Purchasing Managers' Index and the University of Michigan Consumer Sentiment Index all show a classic "V-shaped" recovery. Industrial production rose steadily since June. Overall, the pattern shows a moderate economic recovery that reflects the persistent weakness in employment and the lingering problems in the housing industry.

As another indication of recovery, real gross domestic product (GDP) rose at a seasonally adjusted annual rate of 5.7% in the fourth quarter, following a 2.2% increase in the third quarter. As a comparison, real GDP declined 6.4% during the first quarter of 2009 in the midst of the credit crisis. Consumer spending in the fourth quarter registered a moderate increase of 2.0%. Exports outpaced imports, modestly contributing to real GDP growth, while business investment in equipment and software had a double-digit increase. The largest contribution to growth was the shift from dramatic inventory liquidation seen in recent quarters to subdued levels in the fourth quarter. The inventory cycle played a major role in the recent contraction and start of recovery. During the fourth quarter, the increase in real final sales (real GDP excluding the change in inventories) was only 2.2%, a relatively modest increase.

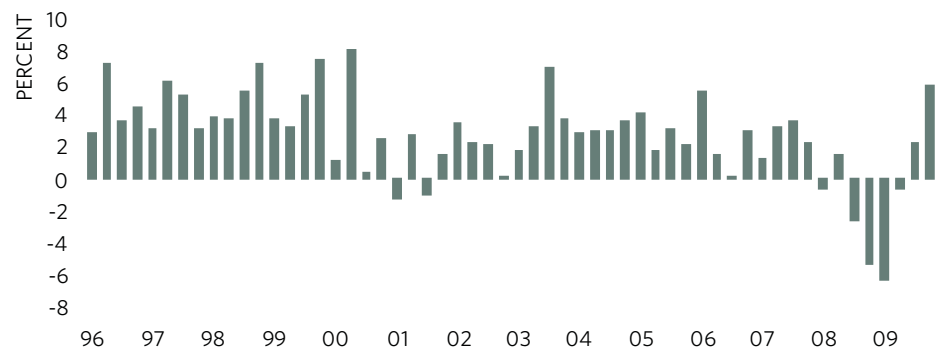
Unemployment Rate



December 31, 2009: 10.0%. Shaded areas designate recession periods.
Source: U.S. Bureau of Labor Statistics

Real GDP

Quarter-to-Quarter Percent Change at an Annual Rate



2009 4Q: 5.7%
Source: U.S. Bureau of Economic Analysis

Domestic Equities

The dramatic contraction and rally in the equity market during the last few years clearly defined the term "market volatility." The S&P 500 declined 56.8% from the October 2007 peak to the March 2009 low, only to be followed by a 64.8% gain as of year end. Nevertheless, even with this rebound the Index remained 28.8% below the 2007 peak. Some analysts refer to the past 10 years as the "Lost Decade" because the annualized total return of the S&P 500 for the ten years ending December 2009 is -1.0%. Except for the past two years, the only other time the S&P 500 had a negative ten-year return was near the end of the Great Depression.

Some investors were concerned that the market rally would be unsustainable. The combination of an improving economy and aggressive efforts to control costs, however, led to strong turnarounds in earnings. During the quarter, all sectors in the S&P 500, except financials, had positive returns. During the last year, information technology was by far the best performing sector, while telecommunications services was the only sector with a single digit increase. Materials companies benefited from the rebound in commodities prices, which were boosted considerably by strong economic growth in China.

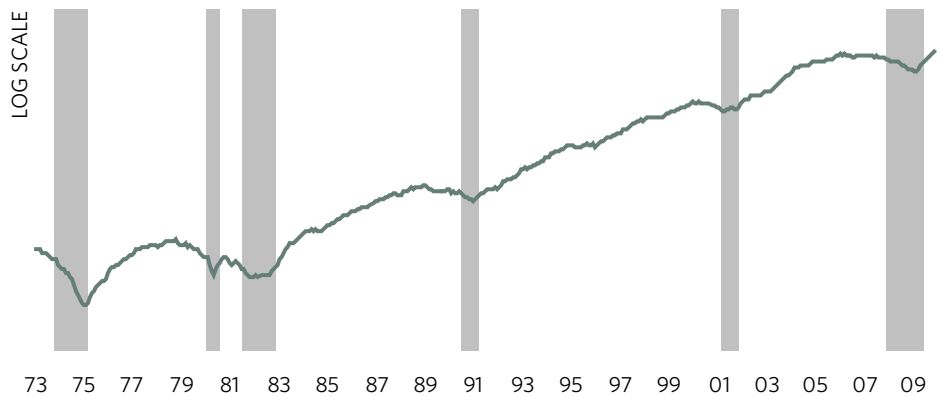
During the fourth quarter, large cap stocks outperformed mid and small cap stocks. For the full year, mid caps outperformed large and small cap stocks by a substantial margin. The lowest quality stocks rated by Standard & Poor's posted the best performance during 2009, in what is known as a junk market rally. For the year, the total return of the S&P MidCap 400 was 37.4%, compared to 26.5% for the S&P 500 and 27.2% for the Russell 2000. Even during the last three and five years, the returns for the S&P 500 and the Russell 2000 were quite close. Historically, small cap and large cap stock returns have been drastically different, but during the last several years this was not the case.

As a result of the powerful rally since March 2009, the market has little room for further multiple expansion, and a substantial improvement in earnings is already built into market expectations. Consequently, 2010 may prove to be somewhat choppy for the equity markets.

Fixed Income

Treasury yields were relatively volatile during the fourth quarter. Yields declined at the beginning of the quarter as significant pockets of weakness remaining in the economy became apparent. Following a short rise, yields fell again as investors flocked to Treasuries in light of the financial crisis in Dubai. Once it became apparent that this crisis would be contained, Treasury yields increased sharply in December as numerous reports highlighted that the U.S. economy was indeed in a recovery mode. The yield on the 10-year U.S.

Leading Economic Indicators



Shaded areas designate recession periods.

Source: The Conference Board

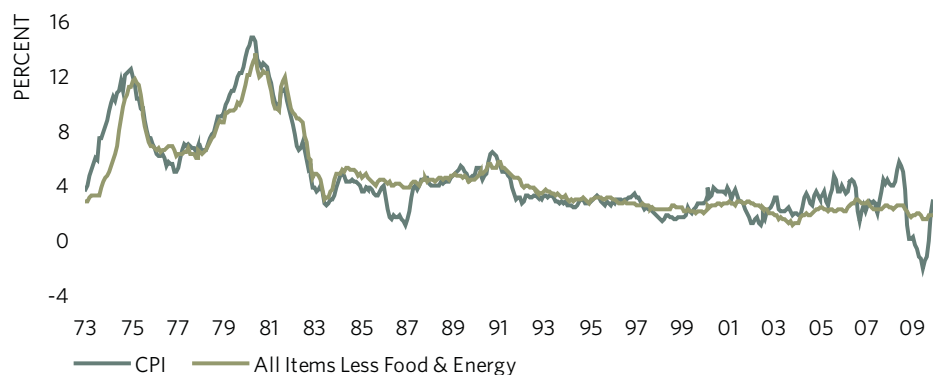
S&P 500 Sector Returns

Total Returns for Periods Ending December 2009

	4Q09	1 Year	2 Years	3 Years
Consumer Discretionary	9.1	41.3	-3.1	-6.6
Consumer Staples	5.0	14.9	-1.4	3.5
Energy	5.6	13.8	-13.9	-0.1
Financials	-3.3	17.2	-27.6	-24.7
Health Care	9.1	19.7	-3.9	-0.3
Industrials	5.4	20.9	-14.8	-6.6
Information Technology	10.7	61.7	-4.1	2.3
Materials	7.4	48.6	-10.1	-0.4
Telecommunications Services	7.4	8.9	-13.0	-5.4
Utilities	7.3	11.9	-10.9	-1.7
Total	6.0	26.5	-10.7	-5.6

Note: Returns for periods greater than one year are annualized.

Consumer Price Index



December 2009: total 2.7%; excluding food and energy 1.8%

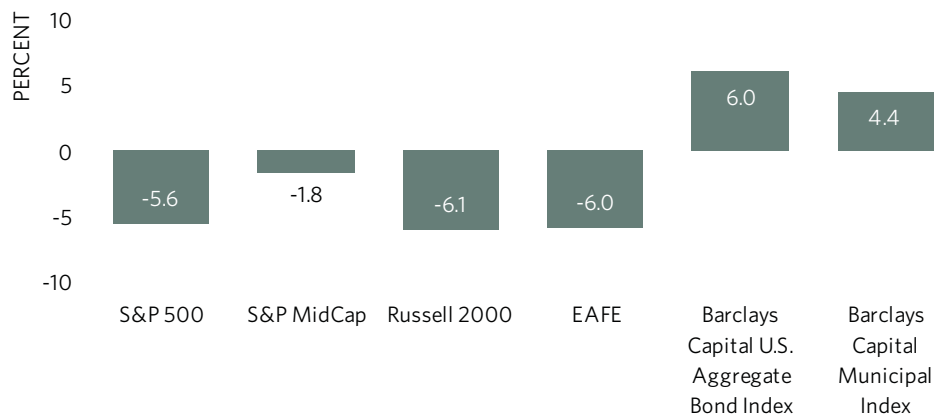
Source: U.S. Bureau of Labor Statistics

Treasury note increased from 3.31% as of September 30 to 3.84% at year end. For reference, the rate was 2.21% at the end of 2008.

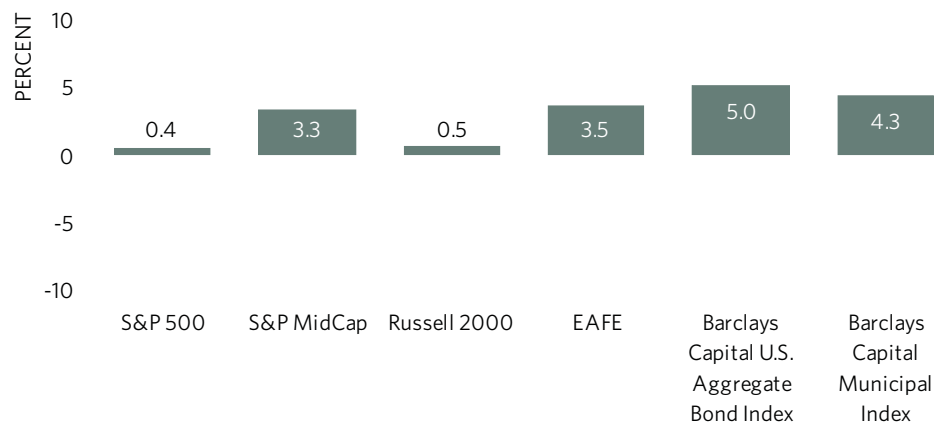
The Federal Reserve kept monetary policy on hold, with the federal funds target rate within a range of 0% to 0.25%. The yield curve reached record steep levels as longer-term rates continued to rise. Treasuries with maturities of five years and longer had negative total returns during the fourth quarter and 2009 as a whole. The long bond (30 year) produced a double-digit decline in 2009. Two-year notes provided a return slightly greater than one percent, about as good as one could get from Treasuries in 2009. Bond market participants continued to worry that the expansive monetary policy ultimately would cause inflation to accelerate. Moreover, investors were forced to contend with the nonstop flood of Treasury debt. The consumer price index (CPI) did accelerate to a year-over-year increase of 2.7% as of December, largely as a result of rising oil prices. Excluding food and energy prices, the increase in the CPI was 1.8%, the same as a year earlier. The Federal Open Market Committee, however, communicated that inflation expectations will remain subdued for some time.

As the financial crisis passed, spreads to Treasuries compressed across a wide spectrum of securities. The total return of Baa securities within the Barclays Capital Aggregate Bond Index was 27.5% in 2009, one of the highest returns among sectors in the Index. In contrast, the return of Aaa securities

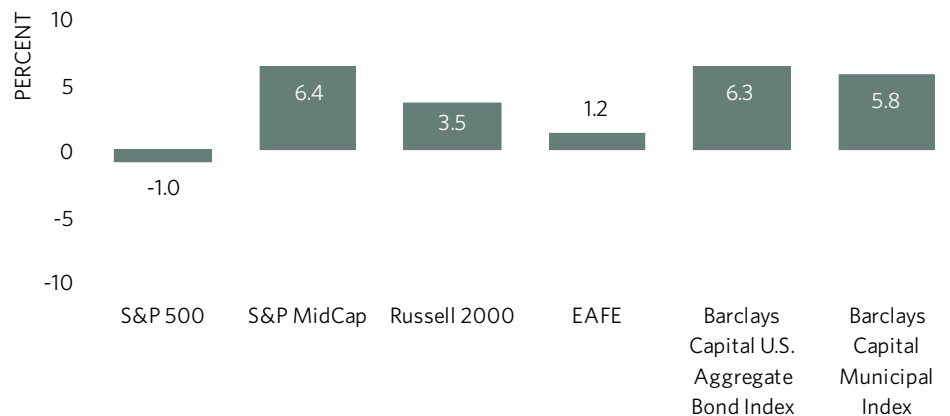
3-Year Returns



5-Year Returns



10-Year Returns



Returns are annualized. As of December 31, 2009.

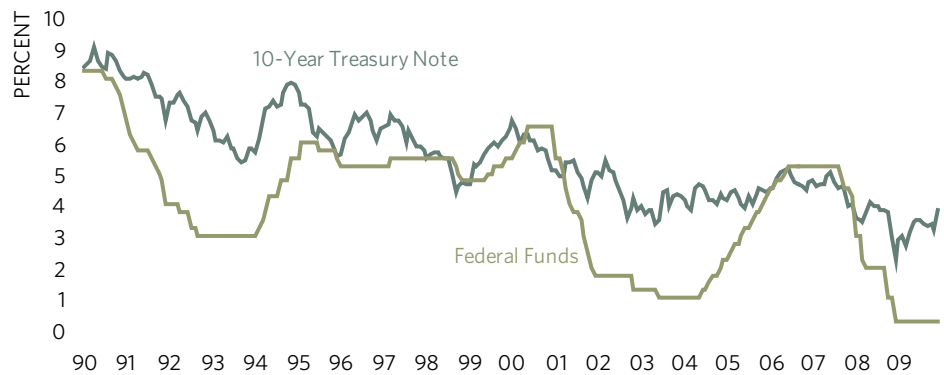
was 2.9%. In 2009, the flight from quality paid off. It was a great year for junk bonds. The total return of the Merrill Lynch U.S. High Master II Index was 57.5%. Within the high yield universe, the lowest rated companies — in many cases, those essentially on life support — had the highest returns as it became apparent that, by one means or another, most would survive the financial crisis.

The total return of the Barclays Capital Municipal Bond Index was -1.0% during the fourth quarter. Municipals with maturities of six years and longer had negative returns, though significantly less than comparable Treasuries. For many state and local governments, the recession created shortfalls in revenues while the need for services and assistance rose relentlessly. As a result, the budget situations of many of these governments deteriorated dramatically. Nevertheless, the big story for municipals in 2009 was spread tightening. During the financial crisis, investors rushed to Treasuries as a safe haven, causing spreads of municipals to Treasuries to reach record levels. As concerns about the crisis became less overwhelming, spreads to Treasuries normalized. As a result, the total return of the Barclays Capital Municipal Bond Index in 2009 was 12.9%.

International Equities

Many of the forces that led to a rally in equity prices in the U.S. also were evident among other developed countries. While monetary and fiscal policies in the U.S. are particularly aggressive, other countries also adopted stimulative policies. Many of these countries' economies are currently in or near an economic recovery. For example, in France, Germany, Japan and the U.K., industrial production is higher than their recession troughs. During the fourth quarter, the Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF) both raised their forecasts for aggregate economic growth in 2009 and 2010 as it became evident that

Interest Rates



December 31, 2009: 10-Year Treasury Note: 3.84; Federal Funds: 0.25
Source: Bloomberg LP

economic conditions were indeed improving. Along with the improvement in economic activity, earnings reports also exceeded forecasts and helped sustain the rally.

During the fourth quarter, the total return of EAFE in local currency terms was 3.3%, below the S&P 500 return. Although the U.S. dollar depreciated during the first three quarters of 2009, it strengthened slightly during the fourth quarter. As a result, the total return of EAFE in U.S. dollar terms during the fourth quarter was 2.2%.

Several broad themes underscored the strong performance among countries in 2009. Norway was the top performer, returning 87.1% as energy prices doubled from the low of the financial crisis. Australia followed with a total return of 76.4%. Australia benefited from the rebound in commodities prices, strong growth in China and other emerging nations in Southeast Asia, and most dramatically from a surging Australian dollar. Hong Kong and Singapore also benefitted from the strong growth in China. The total return for Europe was 27.7% in local currency terms, slightly above the return of the S&P 500, and 35.8% in U.S. dollar terms as a result of the dollar's weakness earlier in the year. Japan had the worst performance with a total return of 6.3% in U.S. dollar terms. Japan still is experiencing deflation, and economic policy makers are constrained by a large debt burden combined with a shrinking population.

Despite strong gains in prior quarters, the emerging markets continued to race ahead. The total return of the MSCI Barra Emerging Markets Index in U.S. dollar terms was 8.6% for the quarter and 78.5% for the year. Brazil, Indonesia, India and Russia all had triple-digit returns. China actually trailed with a return of 62.3%. The Czech Republic had a return of 26.5%, the same return as the S&P 500. Though clearly valuations are becoming an increasing concern, many emerging countries are well positioned to participate in the nascent global economic recovery, however subdued it may be. Overall, helped by the depreciation of the U.S. dollar, 2009 was an excellent year for U.S. investors in foreign equities.

Both the economy and the stock market came a long way since the financial crisis in late 2008 and early 2009. Despite deep-seated problems in the housing market, a continued record high rate of foreclosures and a disturbingly high long-term unemployment rate, the overall economy managed to begin to recover. Corporations are repairing balance sheets and consumers are shedding burdensome levels of consumer credit. Without a doubt, the equity markets in 2009 surprised on the upside. Valuations will present a challenge in 2010. Another major hurdle in 2010 will be the Fed's transition from a highly accommodative stance to a more neutral policy. Although the Fed maintains that a rate increase is not imminent, at some point short-term interest rates will have to rise. Since some bond market participants remain concerned about the potential for rising inflation, bond prices may come under pressure later in 2010. Though not without trauma along the way, the economy and the stock market performed much better than many expected.

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*Charts used for illustrative purposes only. **Past performance does not guarantee future returns.***

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Barclays Capital U.S. Aggregate Bond Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS and CMBS sectors. The U.S. Aggregate Index family includes a wide range of standard and customized sub-indices by sector, quality and maturity.

S&P 500 Index, an equity market index comprised of large cap companies in the U.S.

S&P 400 MidCap Index tracks the performance of stocks of 400 mid size U.S. companies.

MSCI EAFE Index tracks the performance of stocks of about 1,000 companies in Europe, Australasia, and the Far East (EAFE).

Russell 2000 Index tracks the performance of stocks of the 2,000 smallest companies in the Russell 3000 Index.

Merrill Lynch High Yield Master II Index tracks the performance of below-investment-grade U.S. dollar-denominated corporate bonds that are publicly issued in the U.S. domestic market. The issues cannot be in default and must have a maturity of at least one year.

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