

The United Methodist Stewardship Foundation of Central Pennsylvania 4th Quarter 2009 Investment Commentary

Markets continued to recover during the 4th quarter for equity securities, which marked the 3rd consecutive quarter of gains for stocks. Within fixed income, most indices finished in positive territory for the quarter with the notable exception of longer-term U.S. government and Treasury bond indices, as well as non-US world government indices.

Emerging from the deepest recession since The Great Depression, the economic recovery began in the 3rd quarter of 2009 with a GDP advance of 2.2%. PNC's estimate for 4th quarter of 2009, the quarter just ended, is for GDP to advance 3.8%.

PNC's general outlook for the 4th quarter earnings season of 2009 that is just getting underway, is that current consensus earnings expectations appear to be conservative—meaning that earnings expectations seem to be reasonable and beatable.

Equity Portfolio

PNC's Equity Portfolio for The United Methodist Stewardship Foundation returned 5.25% for the 4th quarter as equity indices across the board advanced. The blended benchmark for the 4th quarter of 2009 would have returned 5.18%.

For the 12 months ending December 31, 2009, the Equity Portfolio gained 23.23%. Comparison blended benchmark portfolio would have advanced 28.81%. The sharpest part of the market's broad advance from where the markets hit bottom in March was led by lower quality companies that widely out-performed higher quality companies, especially during the 2nd and 3rd quarters of the year. This phenomenon faded in the 4th quarter and PNC continues to believe that over the longer term, disciplined equity managers who focus on higher quality equities offer the best risk/ return profile.

PNC's Equity Portfolio performance for The United Methodist Stewardship Foundation of Central Pennsylvania for the inception of May 2007 continues to show out-performance relative to the blended benchmarks.

Fixed Income Portfolio

PNC's Fixed Income Portfolio for The United Methodist Stewardship Foundation posted -0.27% for the 4th quarter vs. 0.20% for the Barclay Aggregate. The high quality focus of the portfolio, (securities at the time of purchase must be A-rated or better), provided headwinds in the 4th quarter relative to the benchmark, and indeed through the full year, as the portfolio returned 3.53% for 2009 vs. 5.93% for the Barclay Aggregate index. This quality focus provided great protection during 2008; however as the market-embraced risk more willingly in 2009, lower quality fixed income assets rallied more sharply from depressed levels. Not having exposure to BBB rated corporate debt was the primary factor in the deviation from benchmark performance.

Investment and Economic Outlook

As we look ahead into 2010, PNC will be focusing much attention on developments related to what we term the 3-legged stool of housing, consumption and jobs as a way to gauge the sustainability of the recovery.

PNC's current thoughts are that the economy advances at a relatively slow pace through 2010, especially with the magnitude of the recession we are now emerging from. In the past, the economy typically recovered sharply from deep economic recessions. However, U.S. GDP growth expectations for 2010 are currently below both longer-term historical and longer-term sustainable growth levels. PNC's Chief Economist Stu Hoffman is currently forecasting 3.0% GDP growth for 2010.

If the sub-optimal growth scenario unfolds as expected, we believe the focus on higher quality investment options as we have maintained for United Methodist Stewardship Foundation within the Equity and Fixed Income Portfolios offer the best risk/reward profiles, and will deliver solid investment results over a longer-time horizon.

We suspect the low quality market leadership in both equity and fixed income markets is running out of steam, and are confident the Fixed Income and Equity Portfolios are well positioned. Additionally, we believe the focus on higher quality investment strategies will prove beneficial should economic conditions deteriorate.