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The domestic equity market turned in its best quarter since the 4<sup>th</sup> quarter of 2003 despite the continued mix of both positive and negative economic data that we noted last quarter. The tension seems to be primarily generated between improving manufacturing data offset by the continuation of negative employment numbers. The June unemployment rate hit a 26 year high of 9.5%, and there have been 6.5 million jobs lost since the recession began in December of 2007.

Unemployment is a lagging indicator for the overall economy, but it will continue to affect all aspects of the consumer sector including autos, retail, travel and entertainment, and the ability to refinance a mortgage. While the current recession has lasted longer than the 16 months of the 1981-1982 recession, we have only experienced 7 months of unemployment greater than 7.0% versus a total of 74 months for the 1981-1982 recession. Unemployment did not fall below 7.0% until the end of 1986.

Given the extensive deleveraging of consumer, financial, and corporate balance sheets, we expect that job losses will continue for the next several quarters. Employers will be slow to hire new workers given the uncertainty surrounding increased regulation, healthcare costs, energy costs, and tax policy. The weak consumer will be a drag on the economy for a while. The personal savings rate rose to 6.9% in May, the highest reading since December of 1993. It set a record low in August of 2005 at -2.7% as the credit bubble was approaching its peak.

However, the improvement in the ISM Manufacturing Index for the sixth consecutive month is a positive data point for the economy. The rebound in the price of oil from a low of \$33 to the current reading of \$64 also indicates renewed strength in the global economy. China's fiscal stimulus appears to be helping as well given the increase in commodity prices. The problems in the financial sector will continue to be a drag on our recovery, but we are getting through the process without the fear and volatility that were present last fall.

Thank you for your continued confidence, and we look forward to meeting with you at your convenience. Please visit our blog at [www.crossvaultblog.com](http://www.crossvaultblog.com) for our ongoing reflections on the market environment.

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