



Market Update

Asset Consulting Group, Inc.

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Monthly Report

March 2006

The Economy

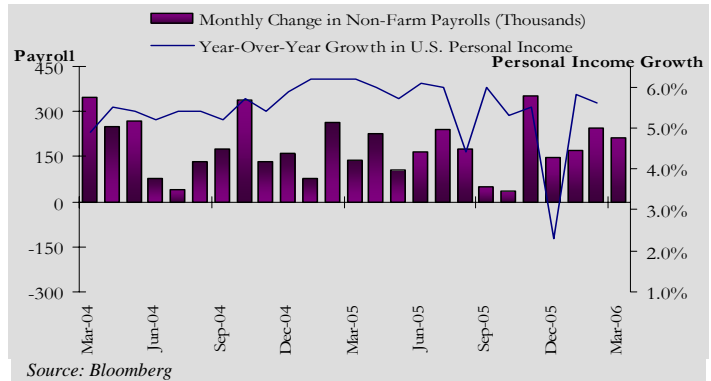
Economic reports in March indicated the economy moderated from the January and February surge, but still showed solid momentum heading into the second quarter. The forecasted healthy first-quarter economic growth (GDP report due out April 28th), has sent 10-year bond yields on the rise, as investors now believe the economy is stronger than they first thought and anticipate the Federal Reserve may have to lift short-term interest rates beyond prior expectations.

Expectations are for a sharp rebound in first-quarter economic growth...

The Commerce Department reported, in the final revision of fourth-quarter 2005 GDP, that the U.S. economy grew at an annual rate of 1.7% due to a slowdown in both consumer spending and business fixed investment. This level of growth met most economists' estimates, as expectations were for depressed growth stemming from surging energy prices and hurricane related disruptions of economic activity. However, expectations are that economic growth rebounded sharply in the first-quarter, as median economists' forecasts have growth pegged at 4.7% based on higher consumer spending and increased business investment in inventories.

Short-term interest rates continue to rise...

The Federal Reserve, beginning their new era under Chairman Bernanke, recognized the surging rebound in economic activity and decided to raise the Fed Funds rate another quarter-percentage point to 4.75%, the 15th increase in a row. Their statement on future Fed policy stated "some further



Source: Bloomberg

policy firming may be needed to keep the risk to the attainment of both sustainable economic growth and price stability roughly in balance." They concluded that economic growth did in fact rebound sharply in the first-quarter and future actions will be in response to changes in economic prospects, but still believed that energy prices and labor costs pose a risk to inflation.

Long-term bond yields start to climb...

Over the course of the current Fed tightening cycle, 10-year yields failed to climb in response to the higher short-term rates, which was termed a conundrum by former Fed Chairman Greenspan. In fact, yields had not exceeded 4.69% since the start of the tightening cycle, which began in June 2004, until bond traders sent yields to a two-year high of 4.86% on the last day of March. There are two reasons behind this sudden change in sentiment. First, traders now recognize that the economy is stronger than expected. Economists have revised 2006 economic growth upward from 3.3% to 3.4%, leading investors to believe the Fed may have to lift inter-

est rates further to maintain the balance between growth and price stability. Second, foreign central bankers have begun taking measures to tighten monetary policy in response to their own domestic economic growth. Such measures are expected to spur investment in international markets, as the yield advantage Treasuries currently offer over other government bonds declines. There are signs that these measures are already resulting in shifts in the global liquidity that earlier was flowing into U.S. assets, mainly U.S. Treasuries. Economists argue that, as a result, U.S. yields must rise to continue to attract foreign investment.

Consumers increase spending in the wake of higher energy prices...

In early April, bond investors pushed up 10-year yields to 5%, after government reports showed American employers added 211,000 jobs in March and the jobless rate dropped to 4.7% from 4.8% in February. The number of jobs created in the first-quarter amounted to 590,000, the most since the fourth-quarter of 2004. The improving job market is boosting consumer confidence and could fuel incremental wage gains, helping consumers weather higher energy prices and rising mortgage rates, which are beginning to edge higher. So far, the consumer has proven resilient to this rising inflationary backdrop. Consumer spending is forecasted to have grown 4.7% over the first-quarter and is expected to rise 3.2% for all of 2006. This should help sustain economic expansion into the second half of the year.

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Inside this issue:

Market Commentary

- The Economy
- Equities
- Fixed Income
- International

Indices Report

- March 31, 2006

Economy at a Glance

Recent growth indicators	2005			
	Dec	Jan	Feb	Mar
ISM manufacturing	55.6	54.8	56.7	55.2
ISM non-manufacturing	61.0	56.8	60.1	60.5
U. of Michigan Consumer Confidence	91.5	91.2	88.9	89.2
Advance Retail Sales (%m-o-m)	0.4	3.0	-0.8	0.6
Personal Income (%m-o-m)	0.4	0.7	0.3	
Personal Spending (%m-o-m)	0.9	0.9	0.1	

Source: Bureau of Labor Statistics, ISM, Bloomberg

Equities

Investors largely ignored high relative valuations of small capitalization vs. large capitalization stocks, bidding small cap stocks higher, as they outpaced both mid caps and large caps in March. The Russell 2000 gained 4.85% in March and completed the first quarter of 2006 with a gain of 13.94%. However, these gains have left fundamentals near extreme levels. As of the end of March, the ratio of the Russell 2000

to Russell 1000 trailing P/E ratio stood at 1.23. With a historical average dating back to 1979 of 1.01, the ratio now stands at a 22% premium to historical averages. The S&P 500 gained 1.25% in March and 4.21% in the first quarter, resulting in an outperformance gap by small caps of 9.73%, the widest difference since the fourth quarter of 2001. The expectations of a robust U.S. economic backdrop for 2006 attracted money flows into cyclical economic sectors. As a result, both the S&P

500 Industrials and Basic Materials sectors outpaced the other eight sectors, gaining 4.53% and 4.28% respectively in March and adding 6.51% and 6.81% respectively during the first quarter. There was a change in leadership among sectors in the quarter, as the Communication sector overtook the Energy sector for top honors, gaining 13.39%, versus 8.60% for Energy, despite crude oil prices rising 9% since the end of 2005. Growth stocks outperformed Value in

March, as the Russell 1000 Growth index gained 1.48% and rose 3.09% for the quarter, while the Russell 1000 Value index added 1.35% for the month, and is up 5.93% for the year. Mid capitalization equities trailed both small caps and large caps in March, but have outpaced large caps thus far in 2006, as the Russell MidCap index gained 2.48% in March and 7.61% in the first quarter of 2006.

Fixed Income

Credit conditions for the U.S. corporate bond market remain favorable due to more credit worthy balance sheets, rising corporate profitability and above long-run average economic growth. Corporations continue to use excess cash flow derived from earnings growth to deleverage their balance sheets. The Bond Market Association's median forecast for credit market bond issuance (including municipal, corporate, asset-backed securities, CDO's and mortgage-related securities markets) for 2006 shows a decline of 13.3% compared to 2005.² Credit quality turned positive after

deteriorating in the fourth quarter of 2005, with 72 upgrades versus 63 downgrades recorded through March 31 2006.³ The year-to-date downgrade ratio, which represents the number of downgrades to total rating actions, declined to 47% from 60% for 2005. As Treasury yields have risen, driven by the Fed hikes in short-term interest rates, investment-grade bond yields have matched pace. AAA corporate bonds yielded 5.27% as of March 17, 2006, up 31 bps from 4.96% at end of 2005, while BBB corporates yielded 5.98% as of March 17, 2006, up 23 bps from 5.75% at the end of 2005. However, the rise barely nudged historically low investment-

grade credit spreads over treasuries, which inched higher to 43 bps at the end of March from February's level of 39 bps. These thin spreads continue to weigh on investment grade returns, as the Lehman Brothers Aggregate Bond index lost 0.98% in March and is down 0.65% YTD. Speculative grade yields have not risen in tandem with Treasury yields, actually declining from year-end levels. The Lehman Brothers High Yield index was yielding 8.25% at the end of 2005 and yielded 8.13% at the end of March. This decrease has compressed quality premiums, the spread between investment grade and speculative grade. The quality premium between the Leh-

man Aggregate and High Yield index stood at 311bps at the end of 2005 and edged down to 258 bps at the end of March. A lower quality premium, low interest rate environment, and relative global economic stability have boosted investor appetites for risk, allowing the Lehman High Yield index to outperform investment grade bonds over the first quarter of the year. The index gained 0.60% in March and was up 2.89% YTD. Other riskier bonds also have positive returns for the year, as the Lehman Emerging Markets index lost 1.56% in March on investor anxiety over tighter global monetary conditions, but still gained 1.80% YTD.⁴

International

Investors continue to be lured to both developed and emerging markets equities hoping that the current corporate capital investment cycle will remain intact and the recent signs of a recovery in consumer demand will help bolster economic growth. Japanese consumers were the most optimistic in more than 15 years in February, as consumer confidence among households rose to 49.8 in February from January's reading of 49.5. Wages rose in January for a fifth month in a row and the unemployment rate fell to 4.1% in February from 4.5% in January, the lowest rate in seven years. A third catalyst augmenting Japanese consumer consumption growth is the wealth effect transpiring from the equity market rally since the middle of 2005. According to the recent Bank of Japan flow of fund report, stock ownership by households rose 48% to 118 trillion yen (\$1 trillion) and stock and mutual fund holdings added 5.2% of wealth for Japanese households in 2005.

These three key drivers helped propel Japanese consumer spending, which accounts for more than 50% of gross domestic product, to account for more than 33% of the 5.4% annualized growth in the fourth quarter of 2005. Even though the Nikkei 225 index gained 45% in 2005, leaving valuations rich on a relative basis, investors bid the index higher by 5.72% for the month and up 6.38% YTD in local currency. In USD terms it rose 4.20% for the month, and gained 6.80% YTD. The European Central Bank (ECB) undertook its second interest rate hike within the current monetary tightening cycle in March, raising its refinancing rate by 0.25% to 2.50%. ECB president, Jean-Claude Trichet, signaled in an early April statement that the governing council plans to pause for now and reassess the evidence for inflation and money supply growth over the coming months. However, higher interest rates have yet to provide headwinds to economic growth and corporate profits. The Euro zone's GDP grew 1.3% in 2005 and is

Region	2004 Actual	2005 Actual	2006 Forecast	2007 Forecast
US	4.40%	3.50%	3.50%	3.30%
Japan	2.70%	2.80%	2.00%	2.00%
Eurozone	1.70%	1.30%	2.10%	2.20%
U.K.		1.80%	2.20%	2.40%
Total OECD			2.90%	2.90%

Sources: Bloomberg, OECD Economic Outlook #78

expected to increase 1.9% in 2006. The main driver behind economic growth has been the resurgence of corporate capital investments (capex), as companies plowback excess cash flows, stemming from profit growth from increased global export demand in the last two years, into operations to improve operating efficiencies. The capex cycle is expected to gain further momentum in 2006 supporting economic growth and creating new jobs. The consumer has yet to fully participate in the current economic expansion as Euro zone unemployment remains markedly higher than in other

developed nations, with unemployment resting at over 8% at the end of 2005. Nonetheless, the economic growth prospects have spilled over into European equities as the MSCI Europe index broke through the 1600 level for the first time in its 35 year history, gained 3.39% in March and was up 8.81% YTD in local terms. In USD terms the index was up 3.93% for March and rose 10.83% YTD. The MSCI EAFE equity index rose 3.69% in March and 8.27% YTD in local currency. On a USD basis the index gained 3.35% for the month as the euro declined against the dollar last

month and was up 9.47% YTD. Emerging markets equities continued to sizzle in the first quarter of 2006. They have rallied on expectations their economies will continue to expand as a result of strong global demand, especially for commodities, and expectations for a pickup in local consumer spending. Although the MSCI Emerging Markets index has had an average annual gain of 36% over the past three years, equity valuations are generally favorable relative to developed markets equities on a forward P/E basis. According to recent consensus estimates from Thomson First Call, an equity research company, corporate earnings are expected to grow 16% and 10% in 2006 and 2007 respectively. The MSCI Emerging Markets index gained 1.43% in March and 9.68% YTD in local currency terms. On a USD basis, the index gained 0.90% in March and 12.12% YTD.

Footnotes:

1 – FOMC Minutes – March 28th 2006

2 – The Bond Market Association, U.S. Credit Market Outlook, January 2006.

3 – Standard & Poors Credit Outlook for U.S. Corporate Bonds.

4 – Lehman Brothers

Indices Report

Asset Consulting Group, Inc.

Monthly Indices Report

Periods Ending March 31, 2006

Index Name	Style	Returns							
		Month	Qtr	2 Qtrs	3 Qtrs	1 Year	3 Years	5 Years	10 Years
<u>Domestic Equity Indices</u>									
S&P 500	Large Cap Core	1.25%	4.21%	6.38%	10.22%	11.72%	17.22%	3.97%	8.96%
S&P Equal Weighted	Large Cap Core	1.84%	6.25%	8.95%	14.22%	17.39%	25.60%	10.13%	11.90%
Russell 1000	Large Cap Core	1.42%	4.49%	6.71%	10.92%	13.19%	18.30%	4.74%	9.18%
Russell 1000 Growth	Large Cap Growth	1.48%	3.09%	6.18%	10.44%	13.16%	14.80%	1.66%	6.50%
Russell 1000 Value	Large Cap Value	1.35%	5.93%	7.26%	11.43%	13.29%	21.77%	7.79%	10.97%
Russell Mid Cap	Mid Cap Core	2.48%	7.61%	10.15%	16.67%	21.55%	27.87%	12.53%	12.66%
Russell 2000	Small Cap Core	4.85%	13.94%	15.22%	20.63%	25.84%	29.53%	12.59%	10.15%
Russell 2000 Growth	Small Cap Growth	4.86%	14.36%	16.20%	23.53%	27.83%	28.14%	8.58%	5.51%
Russell 2000 Value	Small Cap Value	4.84%	13.51%	14.26%	17.78%	23.76%	30.74%	16.24%	14.02%
Wilshire 5000	Broad Equities	1.84%	5.43%	7.77%	12.12%	14.71%	19.67%	5.95%	9.14%
HFRI Equity Hedge	Long Short Equity	2.32%	6.35%	9.08%	15.57%	17.10%	15.49%	8.33%	14.23%
<u>International Equity Indices</u>									
MSCI World	Broad Global	2.24%	6.72%	10.09%	17.90%	18.62%	23.95%	6.84%	7.71%
MSCI EAFE	Developed Markets Intl	3.55%	9.47%	13.99%	25.87%	24.93%	31.65%	10.04%	6.83%
MSCI EAFE Growth	Developed Markets Intl Growth	3.92%	9.09%	13.86%	25.82%	24.99%	27.59%	7.86%	4.20%
MSCI EAFE Value	Developed Markets Intl Value	2.78%	9.85%	14.10%	25.95%	24.92%	35.71%	12.16%	9.32%
MSCI Emerging Markets Free	Emerging Market	0.90%	12.12%	20.19%	41.96%	47.98%	46.66%	23.57%	N/A
<u>Domestic Fixed Income Indices</u>									
Treasury Bills	Cash	0.38%	1.02%	1.95%	2.79%	3.53%	2.09%	2.24%	3.83%
Merrill Lynch 1-3 Yr Treasuries	Treasuries	0.14%	0.39%	1.08%	1.17%	2.32%	1.42%	3.18%	4.79%
Lehman Muni 5 Yr	5 Yr Municipal Bonds	(0.39)%	0.02%	0.32%	0.22%	2.15%	2.21%	4.03%	4.78%
Merrill Lynch High Yield	High Yield Bonds	0.60%	2.85%	3.55%	4.48%	7.30%	11.72%	8.06%	6.93%
Lehman Aggregate	Core Bonds	(0.98)%	(0.65)%	(0.05)%	(0.73)%	2.25%	2.92%	5.11%	6.29%
Lehman Government	Government Bonds	(0.90)%	(0.91)%	(0.24)%	(1.18)%	2.14%	2.15%	4.67%	6.08%
Lehman U.S. Credit Index	Corporate Bonds	(1.40)%	(1.16)%	(0.68)%	(1.68)%	1.83%	3.71%	5.97%	6.61%
Lehman Muni 10 Yr	10 Yr Municipal Bonds	(1.03)%	(0.13)%	0.64%	0.09%	3.30%	3.72%	4.93%	5.74%
HFRI FOF Conservative	Low Volatility	0.92%	3.58%	5.06%	8.22%	7.89%	7.15%	6.01%	N/A
<u>Real Estate Indices</u>									
NCREIF Property	Real Estate	5.43%	5.43%	11.15%	16.09%	22.29%	15.74%	12.06%	12.38%
NCREIF Classic Property	Real Estate	5.06%	5.06%	10.38%	15.89%	22.40%	14.96%	11.12%	12.31%
NAREIT Equity	Real Estate	5.05%	14.74%	16.50%	20.97%	38.46%	32.13%	22.30%	15.82%

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