



Market Update

Asset Consulting Group, Inc.

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Monthly Report

March 2007

THE U.S. ECONOMY

Prospects for U.S. economic growth in 2007 remain clouded by the continued housing slowdown and weakness in business investment. Rising mortgage delinquency and foreclosure rates have triggered concerns mortgage lenders may tighten credit standards, further delaying a recovery in housing. In addition, recent economic reports on corporate spending demonstrate business investment in the first quarter of the year could show the second consecutive quarterly decline. This combination of softness in housing and business spending has led to reduced expectations for growth over the coming months. Further clouding growth prospects were statements from the Federal Reserve that inflation might not recede, leaving further interest rate increases a possibility.

The U.S. Housing Adjustment Continues...

In its recent assessment of the housing market, the National Association of Realtors (NAR) said that tighter lending standards would dampen home sales, driving house prices lower, which, they forecast, might decline for the first time in 38 years. Industry analysts forecast that rising mortgage delinquency and foreclosures, predominantly from the subprime mortgage market, will cause mortgage lenders to tighten credit standards, reducing the number of homebuyers qualifying for loans. The seasonally adjusted delinquency rate for mortgage loans on residential properties was 4.95% in Q406, up from 4.67% in Q306. However, most notable was the rise in subprime delinquencies, which increased 77 basis points from 12.56% to 13.33% during Q406 and are 170 basis points higher than a year ago.

Economy at a Glance

Recent growth indicators	Nov-06	Dec-06	Jan-07	Feb-07
ISM manufacturing	49.5	51.4	49.3	52.3
ISM non-manufacturing	58.9	57.1	59	54.3
U. of Michigan Consumer Confidence	92.1	96	96.9	91.3
Change in Payrolls (m-o-m, 000)	132	167	111	97
Personal Income (%m-o-m)	0.3	0.5	1	
Personal Spending (%m-o-m)	0.5	0.7	0.5	

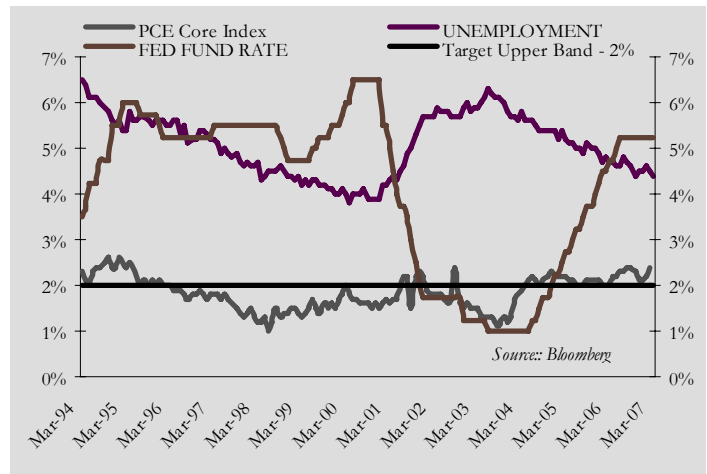
Source: Bureau of Labor Statistics, ISM, Bloomberg

The percentage of loans that entered the foreclosure process reached an all time high of 0.54% in Q406, up from 0.46% in Q306. Nonetheless, the NAR, despite projecting the median sales price of existing homes will fall 0.7% in 2007, still forecasts 2007 to be the fourth highest year on record for existing home

sales. The combination of slowing house price growth across the United States and resets in individual loan payments from ARM loans originated between 2004 and 2006, is causing payment shocks making payments unaffordable, even with fixed mortgage rates slightly declining*.

Business Investment Surprisingly Weak...

The final estimate of Q406 GDP by the Commerce Department showed the economy grew at an annual rate of 2.5% compared with 2% in Q306. Weighing on growth was, as expected, the slump in housing, but also unexpectedly weak business investment. Business investment rose on average 9.4% over the first nine months of 2006, but companies tightened their purse strings in Q406 as corporate spending declined 3.1%. It appears Q107 spending might be trending lower as well. A good barometer of future business investment, durable goods orders for non-defense capital equipment (orders for machinery, metals and appliances) fell 1.2% in February after slumping 6% in January, the worst monthly decline since January 2004. Companies have decided to put new investment on hold and work down existing inventories.



With companies reluctant to buy new machinery and equipment and housing still in a recession, economists are now reducing growth forecasts. In a recent Bloomberg survey of 29 economists, growth for all of 2007 was trimmed to 2.4% vs. 2.5% last month. Additionally, the Federal Reserve is questioning their earlier forecast that inflation will recede. The Fed's preferred inflation benchmark, the "core" PCE index that excludes food and energy, has been at or above their preferred upper limit of 2% since March 2004, with February's reading of 2.4% being the highest since September 2006. Minutes from the Fed's March 21st meeting show that they have now revived the chance of fu-

ture interest rate increases as the elevated levels of inflation outweigh the risk of slower growth. The bright spot within the economy continues to be the consumer who is enjoying rising wages and employment. In fact, according to the Labor Department, unemployment fell to a 4.4% rate in March, from 4.5% in February. The six-month trend was 4.48%, the lowest since August 2001. Sustained expansion and moderate inflation are the centerpieces of the Federal Reserve's mission and until the Fed sees a consistent rise in the rate of joblessness and/or decline in inflation, they will not more than likely cut interest rates.

GLOBAL EQUITIES

U.S. Equities

Fears subsided in U.S. equity markets in March as stocks rebounded from the eight day sell-off, which concluded on March 7th, spurred over concerns of slowing U.S. economic growth. Investors sent the S&P 500 for a 4% decline over that period. However, in the final three weeks of the month, the S&P 500 recovered 2.16%, as investors construed the Fed's March 21st statement, which abandoned a reference to an "additional firming" in interest rates, to mean central bankers had removed their bias towards raising interest rates. The S&P 500 gained 1.12% in March and 0.64% over the first three months of the year. The index has now advanced in seven out of the last eight quarters. For the month, breadth was positive with 265 issues up (4.2%) and 234 issues lower (-3.48%). Eight of the 10 economic sectors were higher in March, led by Energy (+6.08), with Utilities (+8.43%) and Materials (+8.38%) leading YTD. Small-cap stocks performed in step with large-cap stocks in March, as the Russell 2000 rose 1.07% for the month and was up 1.95% for the quarter. Value stocks outperformed growth stocks in March as the Russell 1000 Value index gained 1.55% vs. a 0.54% rise in the Russell 1000 Growth index. The Russell 1000 Value index rose 1.25% in the first quarter while the Russell 1000 Growth index climbed 1.19% in the same period.

International Equities

The dollar fell against both the euro and the yen in March after the U.S. added tariffs to Chinese imports, prompting concerns the protectionist policy would reduce trade. Further pressure came from the tensions between Iran and the United Kingdom, as traders speculated it would lead investors to reduce holdings in riskier assets that had been financed by borrowing in yen. For March the dollar closed down 0.94% against the euro at \$1.3354 per euro, touching \$1.3401 on the tariff announcement. The dollar dropped 0.62% against the yen to 117.83 yen. Over the first three months of the year, the dollar lost 1.17% against the euro and was down 1.04% against the yen.

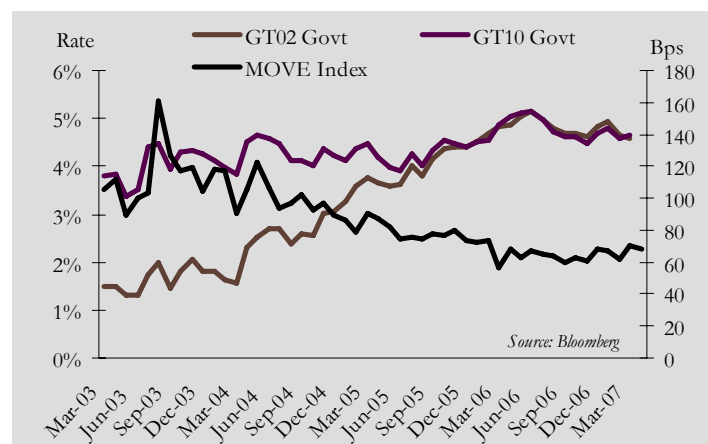
European developed equity markets closed higher for the ninth month out of the last ten supported by continued merger and acquisition activity and healthy corporate profit growth. In local currency, the MSCI Europe gained 2.81% in March and was up 2.81% YTD. On a USD basis, the MSCI Europe index rose 3.67% for the month and was up 3.92% YTD helped by the stronger euro. Japanese stocks declined in March as a drop of 0.1% in consumer prices in February, the first in 10 months, concerned investors that the economy had yet to rid itself of deflation. In local currency, the Nikkei 225 dropped 1.35% in March, but had a slight gain of 0.85% YTD. The index fared much bet-

ter on a USD basis, a reflection of the stronger yen, falling 0.68% in March and increasing 2.12% in the first quarter. The MSCI EAFE index gained 2.05% and 3.41% in local currency for the month and YTD, respectively. The decline in the dollar over the quarter raised returns on a USD basis as the index gained 2.60% and 4.15%, in March and for the quarter, respectively.

Emerging market stocks outpaced developed equity markets on a USD basis in March as investor's appetite for riskier assets re-emerged after the declines in the early part of March. The MSCI Emerging Markets index plunged 8% during the early March sell-off, but from March 7th the index rebounded 7.69%. For the month the MSCI Emerging Markets index jumped 4.02% and was up 2.35% YTD on a USD basis.

GLOBAL FIXED INCOME ¹

The Federal Reserve's decision to hold interest rates steady coupled with the appearance their tightening policy may be near a conclusion (unless inflation remains elevated) led to a steepening of the yield curve in the Treasury markets in March. The two-year Treasury yield, the coupon issue most sensitive to anticipated changes in Federal Reserve policy, fell 7 basis points to 4.58% at the end of March and was down 23 bps from the start of the year. In addition, the spread between the 10-year and the two-year Treasury turned positive, with the yield curve steepening for the first time since November 2005. 10-year yields closed the month at 4.65%, a jump of 8 bps during March. The changing Treasury yield curve left U.S. Treasury markets flat for the month as the Merrill Lynch U.S. Treasury Master index declined 0.10% in March, but still gained 1.43% YTD. U.S. corporate bonds came under similar pressure during March as yields on the Lehman Bros. Corporate Investment Grade index rose 13 bps to 5.61% from February. The Lehman Bros. Aggregate Bond index closed flat for the month, but was up 1.50% YTD. The Lehman Bros. High Yield Bond index managed a slight gain of 0.11% for the month and rose 2.64% YTD, signaling investor's insatiable appetite for riskier assets remained strong.



The European Central Bank raised its main interest rate a quarter point to 3.75% during its March 14th meeting, the seventh rate increase since December 6, 2005. These tightening actions have reduced the yield gap between U.S. 10-year Treasuries and Euro 10-year yields to just 59 bps, a decline of 17 bps since the beginning of 2007. The JP Morgan Global Govt. Bond index gained 0.17% in March and was up 1.19% YTD.

Footnotes:

* Mortgage Bankers Association 30-year mortgage rate peaked at 6.86% on June 23, 2006 and declined to 6.13% as of March 30, 2007.

All data from Bloomberg except:

¹ - Lehman Brothers

Indices Report

Asset Consulting Group, Inc.
Monthly Indices Report
 Periods Ending March 31, 2007

Index Name	Style	Returns							
		Month	Qtr*	YTD	2 Qtrs	1 Year	3 Years	5 Years	10 Years
<u>Domestic Equity Indices</u>									
S&P 500	Large Cap Core	1.12%	0.64%	0.64%	7.37%	11.83%	10.06%	6.27%	8.21 %
S&P Equal Weighted	Large Cap Core	0.79%	2.83%	2.83%	10.10%	12.08%	13.22%	10.83%	12.45 %
Russell 1000	Large Cap Core	1.04%	1.22%	1.22%	8.26%	11.85%	10.73%	6.93%	8.61 %
Russell 1000 Growth	Large Cap Growth	0.54%	1.19%	1.19%	7.18%	7.06%	7.02%	3.48%	5.51 %
Russell 1000 Value	Large Cap Value	1.55%	1.25%	1.25%	9.34%	16.81%	14.41%	10.24%	10.85 %
Russell Mid Cap	Mid Cap Core	0.80%	4.37%	4.37%	12.38%	11.79%	15.72 %	12.91%	12.71 %
Russell 2000	Small Cap Core	1.07%	1.95%	1.95%	11.02%	5.89%	11.99%	10.94 %	10.23 %
Russell 2000 Growth	Small Cap Growth	0.92%	2.47%	2.47%	11.45%	1.56%	9.41%	7.87%	6.30 %
Russell 2000 Value	Small Cap Value	1.21%	1.46%	1.46%	10.62%	10.39%	14.47 %	13.61 %	13.46 %
Wilshire 5000	Broad Equities	1.11%	1.40%	1.40%	8.72%	11.35%	11.04%	7.71%	8.74 %
HFRI Equity Hedge	Long Short Equity	1.24%	3.22%	3.22%	8.69%	8.15%	9.91%	9.25%	13.36 %
<u>International Equity Indices</u>									
MSCI World	Broad Global	1.87%	2.60%	2.60%	11.29%	16.00%	15.19%	10.98%	8.30%
MSCI EAFE	Developed Markets Intl	2.60%	4.15%	4.15%	14.98%	20.69%	20.31%	16.24%	8.66%
MSCI EAFE Growth	Developed Markets Intl Growth	3.37%	5.02%	5.02%	14.92%	18.11%	17.91%	13.83%	6.09%
MSCI EAFE Value	Developed Markets Intl Value	1.83%	3.28%	3.28%	15.00%	23.22%	22.66%	18.60%	11.08%
MSCI Emerging Markets Free	Emerging Market	4.02%	2.35%	2.35%	20.39%	21.02%	27.97%	24.84%	N/A
<u>Domestic Fixed Income Indices</u>									
Treasury Bills	Cash	0.45%	1.25%	1.25%	2.52%	5.07%	3.41%	2.59%	3.80%
Merrill Lynch 1-3 Yr Treasuries	Treasuries	0.36%	1.51%	1.51%	2.38%	5.29%	2.16%	3.53%	5.09%
Lehman Muni 5 Yr	5 Yr Municipal Bonds	0.24%	0.93%	0.93%	1.56%	4.28%	2.21%	4.11%	4.79%
Merrill Lynch High Yield	High Yield Bonds	0.22%	2.68%	2.68%	6.96%	11.45%	8.49%	10.00%	7.03%
Lehman Aggregate	Core Bonds	0.00%	1.50%	1.50%	2.76%	6.58%	3.31%	5.35%	6.45%
Lehman Government	Government Bonds	0.03%	1.45%	1.45%	2.30%	5.93%	2.70%	5.07%	6.25%
Lehman U.S. Credit Index	Corporate Bonds	(0.48)%	1.51%	1.51%	2.87%	7.09%	3.22%	6.27%	6.83%
Lehman Muni 10 Yr	10 Yr Municipal Bonds	(0.20)%	0.75%	0.75%	1.68%	5.61%	3.57%	5.36%	5.78%
HFRI FOF Conservative	Low Volatility	0.62%	2.79%	2.79%	6.86%	8.03%	6.86%	6.84%	N/A
<u>Real Estate Indices</u>									
NCREIF Property**	Real Estate	4.51%	4.51%	4.51%	9.22%	17.59%	17.76%	13.93%	12.91%
NCREIF Classic Property**	Real Estate	4.02%	4.02%	4.02%	8.20%	16.49%	17.18%	12.94%	12.70%
NAREIT Equity	Real Estate	(2.39)%	3.46%	3.46%	13.25%	21.76%	22.55%	22.08%	14.79%

* Rolling 3 months ending March 31, 2007

** For comparison purposes, prior quarter returns are used

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