



Market Update

Asset Consulting Group, Inc.

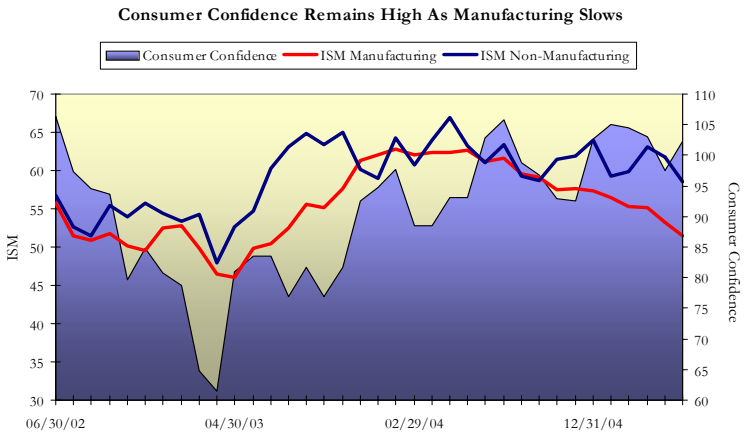
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Monthly Report

May 2005

The Economy

The recent incoming economic data continued to paint a mixed picture of the state of the US economy. The release of much-worse-than-expected US payroll data for May prompted a fresh wave of speculation about whether the US economy had slid into a visible economic slowdown. A two-year low in both the Chicago manufacturing purchasing manager's index and the national ISM manufacturing survey added to the gloomy economic picture and heightened rumors that the Fed might call an end to monetary tightening sooner than thought. On the other hand, US consumer confidence unexpectedly rebounded in May as incomes rose and gasoline prices dropped from April's record high. On the inflation front, in spite of higher than expected labor cost growth in the first quarter of this year on lower productivity gains, there was evidence that inflationary pressures remain more muted than previously thought. The May ISM's manufacturing index pointed to a sharp slowdown in the rise of prices paid for raw materials, hourly earnings grew less than anticipated, and core inflation indicators held steady. Although the first quarter revised GDP numbers were stronger than originally estimated, growth was the slowest since the second quarter of last year, albeit still in line with historical long-term averages. Real GDP expanded at a 3.5% annual pace (3.7% YOY), up from the 3.1% rate initially reported, on better trade deficit data and stronger consumer spending offset by lower inventories and significantly moderated business fixed investment. Weaker growth continued into the second quarter. The purchasing manager index for Chicago-area business, a center of manufacturing, fell to an almost two-



year low of 54.1 from 65.6 in April, evidencing uneven growth in the economy. The US manufacturing sector expanded at a slower-than-expected rate in May as industrial companies slowed production and worked through excess inventory. While manufacturing activity expanded for the 24th consecutive month, the rate has slowed in each of the last six months, and May's ISM manufacturing index reading of 51.4 was the lowest since June 2003. The data indicate that the economy has cooled off and the manufacturing sector is losing some momentum. In line with the manufacturing index, the non-manufacturing index, measuring the service economy, dropped 3 points to 58.5 in May, suggesting a solid level of activity. The May job market showed considerable weakness. Employers added just 78,000 jobs to payrolls last month compared with the 175,000 forecast following a hiring spurt of 274,000 in April, fueling fears that the anemic labor market may start to slow economic growth. The real health of the labor market is something of a puzzle, though. While the payroll data were weak, the household survey, which incorporates a broader employment definition, showed a jobs gain of 376,000,

pushing the unemployment rate down to 5.1%, the lowest level since September 2001. Consumer confidence rebounded in May as fuel prices started to decline and April income rose 0.7% compared to 0.5% a month earlier. The Conference Board's index of consumer confidence increased to 102.2 during the month, significantly higher than April's forecasted 97.5 reading. Prices paid by US consumers rose 0.5% in April, led by a dramatic 4.5% rise in energy costs. The core CPI, however, failed to rise for the first time since November 2003 withstanding the pressure from increased energy prices. The April PCE price index excluding food and energy costs, the Fed's preferred measure for tracking inflation, rose less than the expected 0.1% in April (up 1.6% YOY), the smallest increase since it was unchanged in December. May data confirmed weaker inflationary pressures. The "prices paid" manufacturing index component declined substantially, from 71% in April to 58% in May, as lower energy prices and increased supplies for commodities helped ease cost pressures. In addition, after the higher than expected annual growth in labor costs in the first quarter, a 0.2% rise in May hourly earnings (2.6% YOY) suggested hourly wages are not growing as

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- May 31, 2005

The Economy (cont.)

fast as anticipated. The recent move in the 10-year Treasury yield below 4% reflects a growing belief that US growth is slowing and inflation is not a significant threat. While recent data

do point to certain softness in the economy, it remains too early to predict a serious slowdown, given the choppy nature of the numbers released in recent months. Inflation, meanwhile, does not look poised to take off, while unit labor costs

and wages continued to tick up in the past two quarters suggesting that the Federal Reserve is still likely to be cautious interpreting volatile data like the payroll figures until there is firmer evidence of a declining trend in the economy. For now,

the Fed is highly likely to continue its well-flagged tightening cycle at the end of June with another 25 basis point interest rate increase, and nudging rates higher at a gradual pace later this year.

Equities

The Standard & Poor's 500 index returned 3.18% in May, recouping the majority of the large cap market's year-to-date loss through April. The majority of May's returns came in the third week of the month following a dramatic decline in oil prices. Growth stocks outper-

formed value stocks by a significant margin with the Russell 1000 Growth index returning 4.84% relative to its value counterpart at 2.41%. This is only the second time in the last twelve months that growth has outperformed value, with a less dramatic 0.57% excess return in December of 2004. The rally was broad-based with only mate-

rials and utilities failing to participate in the advance. Materials fell 1.18% on continued weakness in the chemicals and mining sectors while utilities posted their first loss since April 2004, albeit a minimal -0.20%, with narrow-based losses primarily hitting the sector's largest constituents. The information technology and financial sectors ex-

perienced their first positive returns for the year returning 2.59% and 7.68%, respectively. Small cap stocks also posted their strongest month of the year with the Russell 2000 index climbing 6.55%. In spite of strong May returns, small cap stocks are down 4.92% for the year, trailing large cap stocks by nearly 4.00%.

Fixed Income

The Federal Reserve raised its target rate for federal funds by 25 basis points to 3.00% on May 3rd as expected. Fed statements regarding a pick up in "pressures on inflation" led to a slight increase in yields during the first week of the month, reaching a high of 4.29%. A 10% mid-month drop in oil prices and flat Core CPI growth for April helped moderate the market's expectations for future inflation. Easing inflation expectations combined with continued inflows of foreign investment to gradually drive yields down throughout the remainder of the month. The downward trend in yields was capped by an 8 bps decline

to 4.00% on the last day of the month as a result of a significantly weaker than expected Chicago Purchasing Manager's index report, indicating a slower growth rate in the manufacturing sector and further easing inflationary concerns. The yield curve continued to flatten as the yield on the ten-year Treasury declined 21 bps while the yield on the two-year note fell just 4 bps, reducing the yield spread to 40 bps, the lowest level since February of 2001. On June 6th, Alan Greenspan acknowledged that the bond markets might be signaling economic weakness, as global investment in U.S. debt could not fully explain low long-term rates. Consequently, in spite of the unexpected behavior

of long-term rates, there is no reason to believe that the current interest rate environment will change any time soon. The Fed, however, is still expected to raise short-term target rates in the near-term, threatening to invert the yield curve if the market's outlook for economic growth does not improve. As Treasury yields continued to decline, the return on the Lehman Aggregate index exceeded 1.00% for the second straight month, bringing the year-to-date return to 1.96%. Corporate spreads contracted by 17 bps following two months of widening as the uncertainty created by the GM and Ford downgrades dissipated leading to strong performance from the corporate

sector, with a return of 1.37%. While MBS and ABS returned less on an absolute basis, all three sectors outperformed duration-matched treasuries by a margin of approximately 10 bps. High yield spreads also narrowed, but not as significantly as investment grade credits, with the option-adjusted spread on the Lehman High Yield index ending the month down 0.06% to 3.84%. Total return for the index reached 1.78% for the month, recapturing a portion of the losses incurred in March and April, but remaining down 0.85% for the year.

International

The MSCI EAFE index lost 0.38% in May on a US-dollar basis as the 3.61% local currency return on improved corporate profitability data was offset by more than 4% dollar appreciation against the euro. In the five months through May 31, the euro fell 9.7% against the dollar to an eight-month low, as manufacturing in the region contracted and the European business confidence dropped the most in almost two years. The ECB cut its economic forecast for the Euro zone to only 1.4% this year and French and Dutch voters rejected the EU

Constitution fueling fears of slower economic integration in the region. The yen increased 1.4% against the dollar in the first week of June on optimism Japan's economic recovery is gathering pace, as all major economic indicators exhibited positive trends in April. MSCI Emerging Markets index grew 3.04% on a US-dollar basis in May, bringing its year-to-date return to 1.1%, on Eastern Europe's strength. Near-term return prospects on most emerging market assets appear subdued, though. Recent signs of slowing global demand, softened commodity prices and increased market volatility are

unsupportive of increased investor flows into emerging markets. China's booming economy is expected to grow by 9.1% YOY in the second quarter as industrial production continues to ease slightly. That compares with a growth rate of 9.6% in the same period last year and 9.4% for the first quarter of this year. The US policy makers believe that China will let the yuan ("CNY") trade more freely, a move which would most likely result in a stronger Chinese currency. For the first time in three years a modest change to the CNY peg seems possible since two key preconditions appear to have been

achieved: the economy seems to be experiencing a soft landing and speculative capital inflows slowed appreciably in the first quarter of 2005. The trade tensions between China and the US and Europe may grow more acrimonious going forward, particularly since the next 12-18 months will see the world economy experience the full impact of China's supply shock following the country's 2002-04 investment bubble. More Chinese export capacity will come on stream and support the trend of goods price deflation. The CNY is unlikely to be revalued to an extent needed to correct these trends.

Real Estate

The REIT market, which is more sensitive to short-term supply and demand than direct real estate investments due to high liquidity, experienced a sell-off in the first quarter of 2005. The NAREIT Equity REIT index dropped 7.05%, only the second negative quarter for the index since 2002. Many investors may have been influenced by the pervasive reports on a real estate “bubble”, prompting the sale of real estate related holdings to lock in the gains of over 30% generated in each of the last two years. While commercial real estate has benefited from the

environment of low interest rates and a growing economy, the “bubble” is more of a concern to the residential market as individuals increase their debt levels in order to purchase larger homes, or second homes, at inflated prices. Consequently, the NCREIF index, which is more reflective of the larger private real estate market, followed up its strong 14.49% performance in 2004 by posting a 3.51% return for the first quarter of 2005 as most other traditional investments stumbled. Supported by strong consumer spending, the retail sector continued to lead the way with a 4.48% return for the first quar-

ter, extending its span of out-performance to over 3 years, including 5 consecutive quarters. All other NCREIF property types generated positive returns as well (see table). Not surprisingly, the coastal regions (East and West), which led the economic recovery and job growth trends, continue to outperform. The East region returned 4.24% for the quarter; and has out-performed in four of the last five quarters and in each of the last four years. Much of this performance is attributable to hot markets in the Northeast, including recession-proof Washington D.C. (the government never

stops growing). The West region returned 3.49%. The Midwest and South regions, which are expected to lag the East and West during expanding economies, also experienced solid gains, returning 2.65% and 2.99%, respectively.

NCREIF Sector Performance

	First Quarter	
	2005	1-Year
Retail	4.48%	24.72%
Apartments	3.68%	13.78%
Office	3.25%	13.12%
Industrial	2.84%	12.56%
Hotel	1.88%	10.42%

Data Source: National Council of Real Estate Fiduciaries

Indices Report

Asset Consulting Group, Inc. Indices Report Periods Ending May 31, 2005

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	3.18%	(0.57)%	(0.95)%	2.42%	8.24%	5.60%	(1.92)%	10.18 %
S&P Equal Weighted	Large Cap Core	4.55%	0.01%	2.74%	14.30%	12.41%	10.36%	7.39%	12.90 %
DJIA	Large Cap Core	2.96%	(2.23)%	(1.99)%	1.48%	5.00%	4.06%	1.94%	11.05 %
Russell 1000	Large Cap Core	3.55%	0.03%	(0.30)%	3.31%	9.42%	6.29%	(1.47)%	10.40 %
Russell 1000 Growth	Large Cap Growth	4.84%	0.97%	(1.36)%	2.51%	3.33%	3.96%	(8.97)%	7.85 %
Russell 1000 Value	Large Cap Value	2.41%	(0.81)%	0.66%	4.03%	15.49%	8.44%	5.33%	12.06 %
Russell Mid Cap	Mid Cap Core	4.79%	0.65%	1.19%	5.50%	17.20%	12.21 %	7.40%	12.97 %
S&P Mid Cap 400	Mid Cap Core	6.02%	0.77%	1.50%	5.75%	13.98%	9.49 %	8.31%	14.86 %
Russell 2000	Small Cap Core	6.55%	(2.43)%	(4.92)%	(2.10)%	9.82%	9.52%	6.68 %	10.04 %
Russell 2000 Growth	Small Cap Growth	7.05%	(3.52)%	(6.60)%	(3.25)%	4.38%	6.98%	(2.78)%	5.52 %
Russell 2000 Value	Small Cap Value	6.10%	(1.45)%	(3.38)%	(1.07)%	15.11%	11.68 %	15.78 %	13.78 %
NASDAQ Composite	Broad Equities	7.63%	0.80%	(4.93)%	(1.36)%	4.11%	8.58%	(9.47)%	9.11 %
Wilshire 5000	Broad Equities	3.79%	(0.27)%	2.83%	11.13%	9.65%	7.02%	(0.57)%	10.22 %
<u>International Equity Indices</u>									
MSCI World	Broad Global	1.85%	(2.19)%	(1.30)%	2.50%	11.90%	7.98%	(1.20)%	7.39%
MSCI World Ex US	Broad International	0.18%	(4.59)%	(2.31)%	1.82%	15.30%	10.48%	0.37%	5.45%
EAFE	Developed Markets Intl	0.15%	(4.51)%	(2.18)%	2.11%	15.10%	10.51%	0.33%	5.23%
EAFE Growth	Developed Markets Intl Growth	0.37%	(3.85)%	(2.28)%	1.86%	12.25%	8.13%	(3.98)%	2.61%
EAFE Value	Developed Markets Intl Value	(0.06)%	(5.14)%	(2.09)%	2.36%	17.87%	12.85%	4.61%	7.76%
MSCI Emerging Markets Free	Emerging Market	3.52%	(5.88)%	2.71%	7.65%	30.99%	19.87%	7.69%	N/A
IFCI Composite	Emerging Market	3.75%	(4.91)%	3.32%	8.61%	31.45%	21.23%	9.34%	5.22%
<u>Domestic Fixed Income Indices</u>									
Treasury Bills	Cash	0.26%	0.73%	1.06%	1.28%	1.99%	1.53%	2.66%	3.99%
Lehman Intermediate G/C	Intermediate Govt/Credit Bonds	0.90%	1.52%	1.15%	1.84%	4.64%	5.24%	7.15%	6.37%
Lehman Intermediate Aggregate	Int. Core Bonds	0.86%	1.62%	1.44%	2.14%	5.54%	5.11%	7.23%	6.53%
Lehman Aggregate	Core Bonds	1.08%	1.92%	1.96%	2.90%	6.83%	5.87%	7.73%	6.84%
Citi Broad Investment Grade	Core Bonds	1.12%	1.97%	2.01%	2.99%	7.00%	5.93%	7.78%	6.86%
Lehman Govt/Credit	Govt/Credit Bonds	1.25%	2.05%	2.08%	3.16%	7.00%	6.48%	8.00%	6.91%
Lehman Long Govt/Credit	Long Govt/Credit Bonds	2.60%	4.04%	5.57%	8.20%	16.06%	10.87%	10.85%	8.66%
Lehman Government	Government Bonds	1.16%	2.44%	2.35%	3.26%	6.48%	5.70%	7.31%	6.65%
Lehman Mtg Backed Securities	Mortgage Bonds	0.79%	1.72%	1.78%	2.50%	6.69%	4.84%	7.20%	6.72%
Lehman Muni 3 Yr	3 Yr Municipal Bonds	0.18%	0.36%	(0.07)%	0.32%	2.20%	2.81%	4.53%	4.48%
Lehman Muni 10 Yr	10 Yr Municipal Bonds	0.67%	1.72%	1.94%	3.14%	7.40%	5.92%	7.19%	6.23%
Lehman U.S. Credit Index	Corporate Bonds	1.40%	1.48%	1.68%	3.01%	7.75%	7.53%	8.96%	7.29%
Merrill Lynch High Yield	High Yield Bonds	1.84%	(1.96)%	(0.66)%	0.82%	10.17%	10.34%	7.80%	7.15%
Merrill Lynch Conv US	Convertible Bonds	2.68%	(2.85)%	(6.04)%	(3.82)%	(0.30)%	7.31%	2.11%	N/A

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