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U.S. MARKET COMMENT: PUTTING THE U.S. EQUITY MARKET IN PERSPECTIVE

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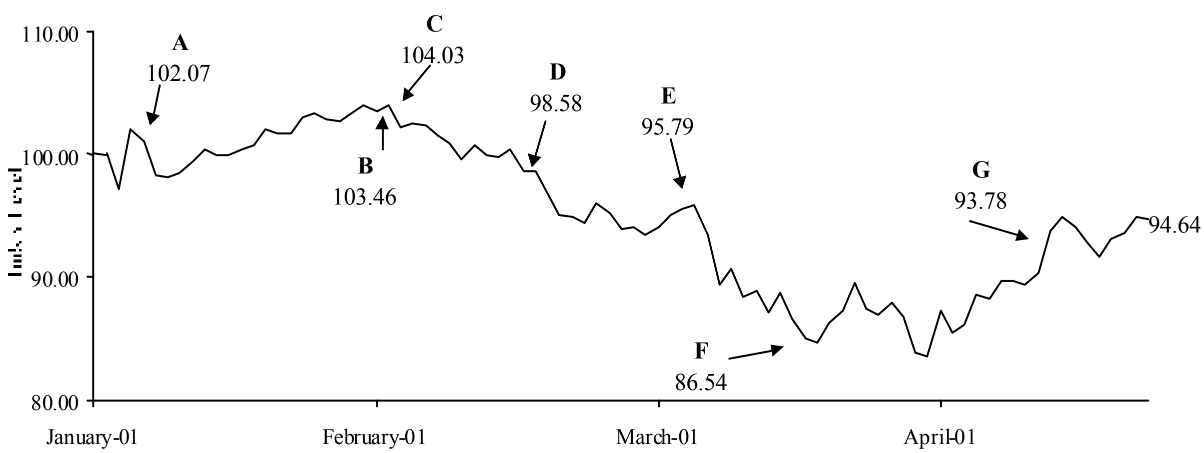
Putting the U.S. Equity Market in Perspective

Recent Months. On any given day, the nightly news offers any number of reasons for the stock market's rise or fall: manufacturing output declined, unit labor costs rose, Cisco reported lower-than-expected earnings, and so on. This reporting implies not only that the specific event *caused* that day's market move, but also that the market would probably have behaved differently had the event not occurred. This interpretation is problematic, however, because daily market moves reflect incremental adjustments in investors' expectations, and frequently have no connection to any specific event at all.

The tabulation of stock market prices against significant news events, shown in the chart below, reflects the tenuous nature of the causal relationships announced after each day's close. Although the S&P 500 took its worst hits this year after Nokia, AOL Time Warner, Nortel, and Intel issued warnings about their earnings, the chart also displays many zigs and zags within the primary down- or up-trends as investors' digestion of each new development finds its way into portfolio adjustments. What *is* clear, however, is the dominant influence of the Federal Reserve, whose actions have exercised a determinant influence on equity prices this year.

S&P 500 Index Reactions to Market Announcements

January 1, 2001 - April 30, 2001

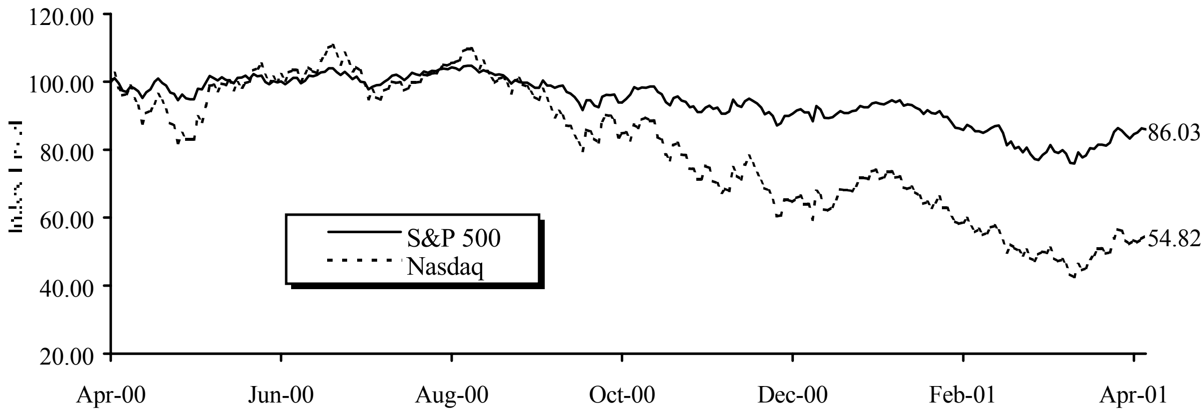


	Dates	Announcements
A	01/03/2001	The Federal Reserve cut the Fed Funds Rate by 0.50%.
B	01/31/2001	The Federal Reserve cut the Fed Funds Rate by 0.50% for the second time in 2001.
C	02/01/2001	National Semiconductor announce a downturn in profits coupled with Nokia's earlier that week, and AOL Time Warner reported a disappointing projection of 1Q growth in cash flow.
D	02/16/2001	Unfavorable profit reports from Nortel Networks, Dell Computer, and Hewlett Packard.
E	03/08/2001	Intel warned of worsening conditions and Yahoo! announced an earnings warning.
F	03/20/2001	The Federal Reserve cut rates for the third time in 2001 by 0.50%.
G	04/18/2001	The fourth Federal Reserve rate cut by 0.50% in 2001.

Source: Datastream International.
Notes: Graph calculated using daily price return data. The data are indexed at 100 on December 31, 2000

One-Year Comparison of S&P 500 and Nasdaq

May 1, 2000 - April 30, 2001



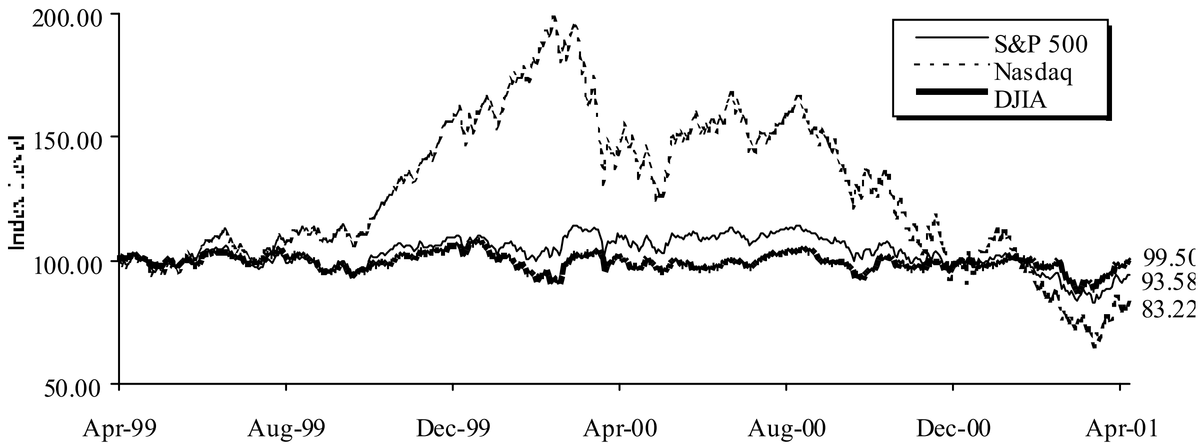
Source: Datastream International and *The Wall Street Journal*.
Notes: Graph calculated using daily price return data. The data are indexed at 100 on April 30, 2000.

Recent Years. As indicated above, the S&P 500 has not fared too badly over the past 12 months—especially compared to the Nasdaq. One hundred dollars invested in the S&P 500 a year ago would have turned into $86.03, whereas $100 invested in the Nasdaq would now be worth only $54.82.

The following chart rolls the time frame back two years to May 1999. Compared to the Nasdaq's precipitous rise and fall, the changes in the Dow Jones Industrial Average (DJIA) and the S&P 500 look dull indeed. An investment of $100 in each index would have dropped to $99.50 in the DJIA, shrink to $93.58 in the S&P 500 and $83.22 in the Nasdaq. Set in this context, the recent decline in the broad market averages looks like a cyclical dip, rather than any cause for undue alarm.

Two-Year Comparison of S&P 500, Nasdaq and Dow Jones Industrial Average

May 1, 1999 - April 30, 2001

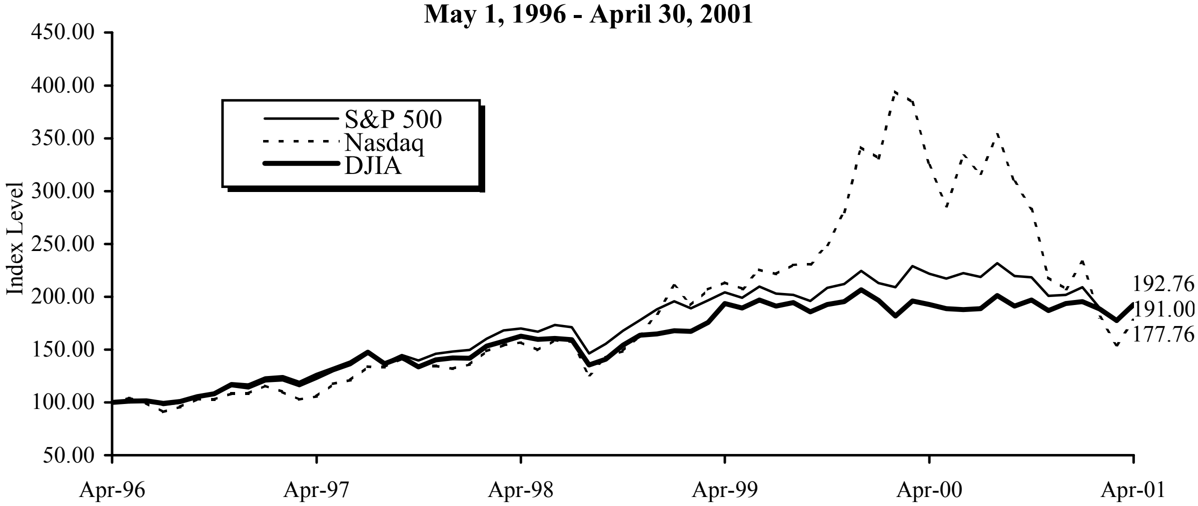


Source: Datastream International and *The Wall Street Journal* .
Notes: Graph calculated using daily price return data. The data are indexed at 100 on April 30, 1999.

When we extend the time horizon to five years, the recent damage inflicted on the S&P 500 looks even more like a mere dent (see the Five-Year Index Comparison chart below). One hundred dollars invested in April 1996 would have grown to $191.00 in the S&P 500, to $192.76 in the DJIA, and to $177.76 in the Nasdaq. This exhibit also reminds investors that the Nasdaq's digression from the broad market's trend is a relatively recent phenomenon (see the 36-Month Correlation Analysis chart below). Since we regard the Nasdaq's recent boom and bust as a Bacchanalian orgy, followed by the inevitable hangover, we would expect correlations among the indexes to rise again as the wayward prodigal returns to the family fold—although whether the toxins have all been flushed out of the Nasdaq's system is very much an open question.

Five-Year Comparison of S&P 500, Nasdaq and Dow Jones Industrial Average

May 1, 1996 - April 30, 2001

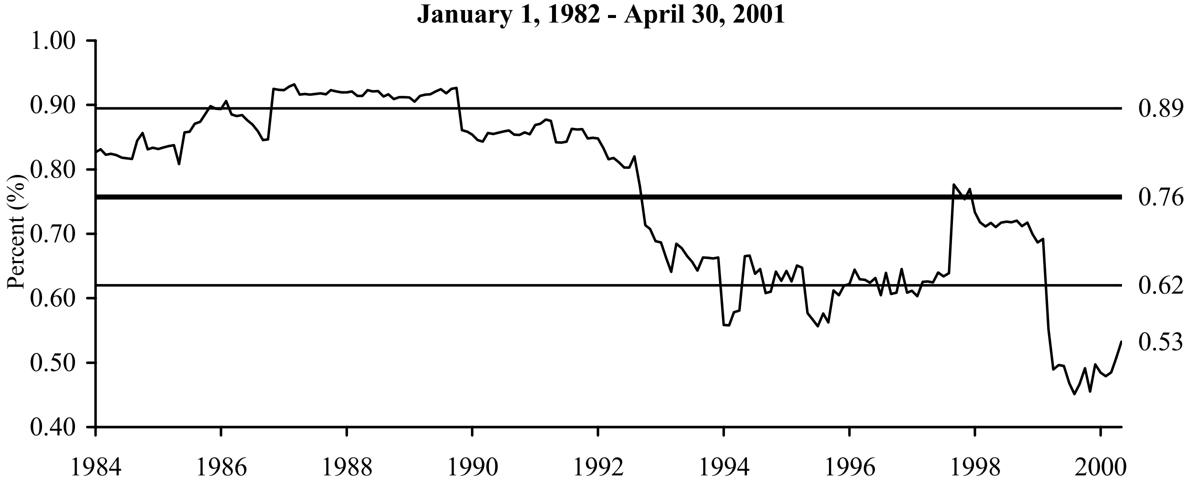


Sources: Datastream International and *The Wall Street Journal* .

Notes: Graph calculated using monthly price return data. The data are indexed at 100 on April 30, 1996.

Rolling 36-Month Correlation Analysis of Nasdaq and Dow Jones Industrial Average

January 1, 1982 - April 30, 2001



Sources: Datastream International and *The Wall Street Journal.*

Note: Graph represents monthly price return data.

So, Where Are We Now? These charts are not designed to minimize the pain of the recent decline in equities, nor to suggest what might happen next. Rather, they illustrate our perception that so far only the Nasdaq is experiencing a thorough-going bear market. As of the end of April, 23.4% of U.S. equities (based on our all-cap index) had declined at least 50% from their 52-week high, which is slightly below March's figure of 28.5%—which was the highest percentage since at least 1979. At the same time, however, 56.7% of U.S. equities were selling at least 50% *above* their 52-week low—not a record number, but well above the average observation for all quarter-end periods since 1979. The remarkable number of issues declining at least 50% is, of course, the result of the Nasdaq's bust, but the significant percentage of stocks rising substantially during the past year indicates that we are very far from the desperation of a secular bear market, in which the true, the good, and the beautiful are indiscriminately mowed down alongside the false, the bad, and the ugly. That day of reckoning may yet come, but it has almost certainly been forestalled by the Fed's aggressive easing.