



# Second Quarter 2009

## Market Commentary

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U.S. economic growth may be at an inflection point, as data releases have recently been mixed. However, following their June 24th meeting, the Federal Reserve seemed not to agree, leaving rates on hold and reaffirming that they would remain at "low levels for an extended period".

The final GDP report for first quarter 2009 was -5.5%, better than previously reported and due largely to a 10.8% increase (annualized) in nominal disposable personal income. This lift from rebates and higher tax refunds benefited consumer spending, however the positive impact is disappearing. Unemployment continues to rise. The jobless rate increased to 9.5% in June.

There is improvement in the housing data: lower mortgage rates are boosting existing home sales, housing starts are recovering and a decline in new house inventory. Prices are down 18% year-over-year, but the pace of decline is slowing. Affordability has surged over the past year, especially for first-time homebuyers.

Despite recent inflation hysteria in the press, the general trend for prices is lower, with core inflation running just under 2% for the past 6 months. We are now experiencing a reversal of the decline in oil prices seen last fall (from \$147 in July 2008, to \$42 in Feb 2009, to about \$60 now) although weakness in global demand should keep prices on the lower side.

Due to the U.S. auto industry reorganization, inventories have declined significantly. Projections are now for a rise in vehicle production in third quarter 2009, with Chrysler announcing the re-opening of seven factories. Additionally, President Obama just signed the "Cash for Clunkers" law, which may spur sales.

Some economists are arguing that domestic GDP in the second half of 2009 could turn positive due to inventory rebuilding and government stimulus spending. Risks to this forecast are increased corporate bankruptcies, declining commercial real estate prices, and the rising consumer savings rate.

After casting about for the right combination of monetary policy, support programs, and stimulus to stem the crisis, the Administration has undertaken to ensure that such a crisis cannot recur. The proposed regulations will probably act as another drag on growth, creating additional reporting/recordkeeping requirements, and more frequent regulatory examinations.

Money market conditions continue to improve. Investors are moving away from short-term Treasury securities as the absolute low levels are driving them to look further out the yield curve or toward spread product. The sheer magnitude of Treasury borrowing needed is starting to weigh on the market. The yield curve has flattened, with the average spread between 1 and 3 month LIBOR narrowing to 48 basis points, down 30 basis points from first quarter 2009. Credit quality and liquidity remain our primary concern.

We continue to be challenged by the lack of supply in high quality deposit obligations, due to the massive amount of liquidity in the banking system and the ability of these entities to access TARP funds and/or issue at cheap levels under the Treasury Liquidity Guarantee Program (TLGP).

As we climb out of this recession, we expect to see a slower rate of growth and a prolonged period of relatively low interest rates.

Hillary Elder, Team Leader

# Fund Profile

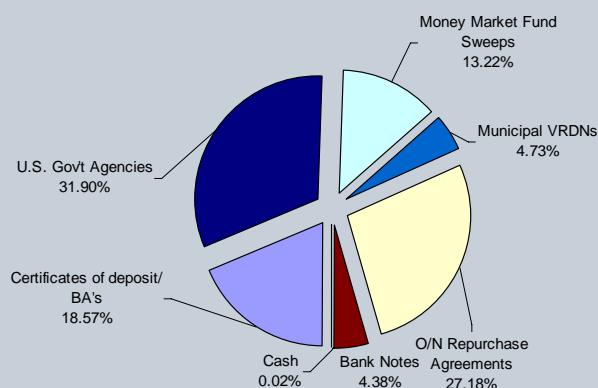
<b>Advisor:</b> HighMark® Capital Management, Inc.	<b>State Domicile:</b> California
<b>Custodian:</b> Union Bank, N.A.	<b>Shareholder Base:</b> Credit Unions
<b>Trustee:</b> Union Bank, N.A.	<b>Inception:</b> September 25, 1975
<b>Auditor:</b> Deloitte & Touche	<b>Rating:</b> Moody's Investor Services AAA assigned 12/18/97
<b>Sponsor:</b> NAFCU Services Corporation	

## Fund Analysis\*

Period Ending	2Q '09	2Q '08	2Q '07
Total Net Assets (\$Mil)	570.2	681.1	265.3
WAM Range (min to max, in days)	15-49	14-34	7-37
WAM Average (in days)	30	22	23
Effective 30 day yield	0.25	2.37	5.35

## Portfolio Composition

As of June 30, 2009



## Portfolio Review\*

### Monthly Average Rate

Apr 2009	0.39%
May 2009	0.30%
Jun 2009	0.25%

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