

Flirting with Zero and All that Jazz

Everyone appreciates by now that we have been working through a severe financial crisis. We didn't envision the seizing up of global credit markets through September-October, but are not surprised that economic activity has stalled, given that access to credit and debt issuance was so restricted. Governments and their central banks acted in a targeted and coordinated fashion beginning in October. Although it may take some time to translate all the stimulus efforts to date to the real economy, the result of efforts since October has been an encouraging improvement that has started to reverse risk premiums built into most every asset class.

We have spilled considerable ink over the last few months discussing various factors that have undermined consumer and business confidence. Examination of the unusual set of complex circumstances that set off this crisis is vital to understanding the challenges and how our concerns will be resolved. The damage done by higher oil prices and housing weakness triggered this credit crisis, which accelerated in September and spawned so many other concerns. Other factors such as aggressive lending practices, regulatory inconsistency and oversight failures contributed to this perfect storm of improbable forces that will take more than a few months to reverse. We expect credit availability and debt issuance to improve given the decline in energy costs and improving housing affordability, coupled with massive fiscal and monetary stimulus measures.

Everyday seems to bring new news, some good and some awful. Headlines of job layoffs are a reminder of household concerns. Recessions can be thought of as transitions from one economic cycle to the next, and are part of a process that tends to bring about improved efficiency and productivity, as weaker companies fail or get consolidated and unsuccessful business models get tossed. Many central banks in October finally reversed course and started cutting interest rates and boosting liquidity, which has usually been an effective prescription in the past. The impact of worldwide monetary policy alignment, supplemented with fiscal stimulus should not be underestimated, as we are indeed *Flirting with Zero and All That Jazz*. At this critical juncture, we expect investor and business confidence should improve, bolster economic activity and restore more normal function to capital markets in coming months. A majority of economists seem to roughly agree on the timing of a global economic recovery emerging by mid-year of 2009, although the severity is a point of active debate.

Readers by now are familiar with some of our favorite charts and tables. This data has helped us understand the *Financial Crisis of 2008* by highlighting the effect of three deleterious forces that conspired to undermine global activity, namely high commodity prices (led by energy), U.S. housing weakness, and tight non-U.S. monetary policy through September. High commodity prices and tight non-U.S. monetary policy have now reversed. Restoring confidence in capital markets is critical given how capital markets and the global economy were so intertwined during this cycle. Early signs of this interdependency were exposed by hedge fund deleveraging, which sparked the 2007 *Quant Quake*. Credit spreads peaked in December 2007, again in April 2008, and most dramatically, in September 2008. Asset-backed commercial paper spreads have been a clear indicator of stress, but it won't be the last time that sentiment trumps valuation.

Risk premiums are elevated worldwide, particularly where liquidity is tight, but investors should eventually shift out of subpar yielding investments, seeking more reasonable returns, in excess of inflation, as conditions stabilize. Credit spreads are wide, but exceptional demand for Treasuries has driven yields to their lowest level in 50 years. Treasury issuance is expected to increase significantly to fund government security purchases and guarantees. Most of these monetary programs have leveraged the AAA credit rating of our government to transfer credit risk to the public sector. The purchase of assets with this new issuance will have only limited effect on the deficit, unless large losses are eventually realized. The rapid rise in the forecasted budget deficit in 2008 was the result of slowing corporate and household tax revenues.

When Treasury yields eventually rise again, investors will likely flee to other asset classes, including equities, which we believe are undervalued, as well as corporate, municipal, and high-yield bonds. We expect the U.S. dollar will continue benefiting from several fundamental forces tilted in its favor, including valuation, and expect that recent gains in the yen due to unwinding of the carry trade will be reversed. Finally, we expect commodities to have a modest upward bias after the recent price adjustment. Speculative flows into shallow commodity markets observed in 2008 are unlikely to be repeated. Oil should trade within \pm \$10 of a \$45 level this year, as U.S. demand fell -7.7% in 2008 according to EIA.

Various financial market indicators are beginning to show visible improvement. At HighMark, we have well-defined investment disciplines that govern our decisions, but when markets overshoot, particularly as value investors, our conviction is tested. William Penn reminds us that “Men are beside themselves when they transgress against their convictions.” Just as with commodities, we expect recent mis-pricing of equities and bonds to be normalized eventually. Our core beliefs about the underlying forces that drive economic theory and financial markets will eventually restore normal economic trends and valuation. Historically, capital markets have provided exceptional opportunities when volatility and risk aversion are high, anticipating economic recovery by a couple quarters.

Investment Performance Review

There are many ways to describe the performance of capital markets in 2008, but most agree returns were disappointing across most asset classes, with the exception of Treasuries. December performance was better during an awful quarter, with the S&P 500 gaining 1.1%, small-cap and non-U.S. (EAFE) stocks rising about 6.0%, high-yield bonds bouncing back 7.6%, and emerging markets surging 7.8%. Small-cap stocks outperformed large-cap by 3.2% during 2008, based on S&P 500 vs. Russell 2000 indices, while Russell 1000 Value nudged ahead of Growth by 1.6%. As broader equity indices declined, no sector was spared. For the year, Consumer Staples (-15.4%) and Health Care (-22.8%) outpaced Financials (-55.3%) and Basic Materials (-45.7%). The Barclays Aggregate bond index returned 3.7% during December, which accounted for most of the 5.2% return for the year.

December might suggest a possible trough for the S&P 500, closing 20% above the low of 752, but for the year the index tumbled -37%. MSCI EAFE (-43.1%) and Emerging Market (-53.2%) indices fared worse than the S&P 500, but small-cap stocks (-33.8%) and high-yield (-26%) performed better. The trade-weighted U.S. dollar rose +4.4%. The Commodity Research Bureau (CRB) Index declined -23.7%, led by a -53.5% decline in oil prices. Commodity prices seem reasonable now, but oil prices exceeding \$100 seemed unsustainable a year ago. Most of the capital market decline was realized in the fourth quarter following the failure of Lehman Brothers and subsequent tightening of credit markets.

Country	Peak Rate	Last Increase	First Cut	Current Rate	Latest Cut	Total Cut	# Cuts
U.S. Federal Reserve	5.25%	Jun-06	Sep-07	0.25%	-0.75%	-5.00%	7
Bank of Canada	4.50%	Jul-07	Oct-08	1.00%	-0.50%	-3.50%	8
European Central Bank	4.25%	Jul-08	Oct-08	2.00%	-0.50%	-2.25%	4
Riksbank (Sweden)	6.75%	Sep-08	Oct-08	2.00%	-1.75%	-4.75%	3
Bank of England	5.75%	Jul-07	Oct-08	1.50%	-0.50%	-4.25%	7
Bank of Switzerland	2.75%	Sep-07	Oct-08	0.50%	-0.50%	-2.25%	4
Reserve Bank of New Zealand	8.25%	Jul-07	Jul-08	5.00%	-1.50%	-3.25%	4
Reserve Bank of Australia	7.25%	Mar-08	Oct-08	4.25%	-1.00%	-3.00%	4
Reserve Bank of India	9.00%	Jul-08	Oct-08	5.50%	-2.00%	-3.50%	4
Bank of Korea	5.25%	Aug-08	Oct-08	2.50%	-0.50%	-2.75%	5
Bank of China	7.47%	Dec-07	Oct-08	5.58%	-1.08%	-1.89%	4
Hong Kong	6.75%	Mar-07	Sep-07	0.50%	-1.00%	-6.25%	7
Bank of Japan	0.50%	Feb-07	Oct-08	0.10%	-0.15%	-0.40%	2

Source: HighMark Capital Management

It is clear in the table above central banks have aggressively cut interest rates. We emphasize that began just over three months ago, but already signs of improvement in capital markets are visible. A more timely response to the credit crisis by foreign central banks loosening monetary policy and cutting interest rates earlier might have helped avert the infectious economic decline. Even as the Federal Reserve was cutting rates, the European Central Bank (ECB) continued to hike rates through the summer, in lock-step with its inflation-targeting mandate. India, Korea and Sweden followed suit, while China, Australia and the U.K. (despite Northern Rock, etc.) held firm well into the fall, as high commodity prices drove up inflation concerns. Dogmatic adherence to inflation targeting versus a more flexible objective like the Fed’s “maximum sustainable growth” mandate remains a concern longer-term. Stabilizing the global financial system is finally a primary concern of all central banks.

Our title, *Flirting with Zero and All That Jazz*, highlights the rapid decline in interest rates worldwide, beginning in October, in response to the global credit crisis. There is an old adage: Don’t fight the Fed. Of course, there is plenty left in their arsenal to do more, if necessary. Fighting all the central banks of the G-7 and then some is probably more perilous. Central banks rarely act in such a coordinated fashion as they did in October, so never before has there been such alignment as we have today. It is worth acknowledging what has already been accomplished on interest rates.

At year-end, the VIX, or implied option volatility of the S&P 500, fell below 40; the first time since October 2nd. This volatility index, which soared as high as 96 in October, has become one of many now familiar indicators used to quantify increasing risk aversion versus normal levels below 20. Investors have been willing to pay up for option protection, but fear measured by this gauge far exceeds previous market crises. With the kind of volatility observed, many tactical investment opportunities develop where few dare to tread.

Last month, we discussed the importance of well-functioning credit markets to sustain economic growth. We highlighted how President Carter’s Credit Control Act had such a dramatic and sudden impact on economic growth between the period when it was imposed in April, 1980 and revoked three months later in July, plunging the economy immediately into recession followed by six months of 8-9% growth. This history lesson provides hope that if credit begins expanding again, growth can recover relatively quickly.

Is There A Glut of Treasuries?

Exceptional flows into U.S. Treasuries, particularly from overseas, have pushed down yields to record levels, as the U.S. dollar firmed. Initiatives such as the \$700 billion Troubled Asset Relief Program (TARP), plus ~\$825 billion in fiscal stimulus, will require a significant increase in Treasury issuance. Treasury demand has been

strong. A few Wall Street strategists have dismissed concerns that new issuance is a threat, despite acknowledging that issuance for the public and private sector must increase. Although monetary stimulus had negligible net effect on the national debt, eventually bonds must reflect normal inflation risk premiums and drive up Treasury yields toward an equilibrium of 5.5%. Once credit issuance frees up, the backlog of corporate deals may also overwhelm fixed income markets.

Investors have witnessed many instances of peculiar behavior over the last decade, driving security prices to extremes that only seem to be recognized in hindsight. With Treasuries well bid and yields flirting with zero, it is hard to imagine there could be a glut. Rising Treasury prices suggest there is little concern that interest rates might rise, but any adverse shift in investor demand could result in a self-reinforcing sell-off, resulting in higher debt financing costs. Interest rate risk seems asymmetric. Higher yields by 2010 are expected, given potential supply conditions. The current 2.2% Treasury yield is the lowest in 50 years.

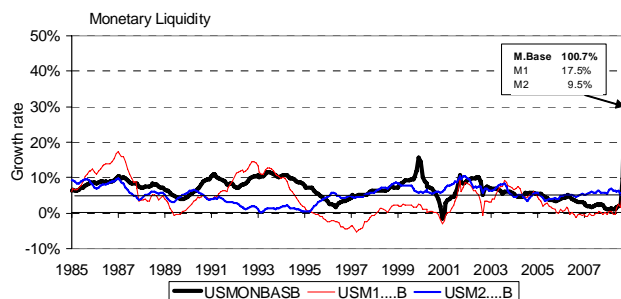
Economic and Capital Market Outlook

In mid-September, 2008, coinciding with the bankruptcy of Lehman Brothers, the credit crisis intensified. Of 2.9 million U.S. jobs lost last year, 1.9 million were forfeited in the last three months. Growth rates in retail sales and industrial production fell off a cliff. Up to that point, it was surprising how resilient the economy and employment had remained. Worldwide confidence plunged only after credit markets seized up. Without access to credit, companies quickly moved to lower costs, including reducing workers and delaying investments. Capital markets have now discounted a severe global recession and experienced record volatility. Economic activity plunged during the fourth quarter as the credit crisis accelerated, still U.S. real GDP growth increased +1.8% for the year. That is quite an unusual recession. The U.S. economy was stronger than Europe and Japan.

Monetary policy is the most powerful tool available. It tends to be more effective than fiscal spending, particularly during a financial crisis, when the contraction of credit and debt issuance is usually observed. The Fed seeks to promote maximum sustainable growth and employment. It is encouraging that nearly all central banks are now aligned in their objective. Growth in the U.S. monetary base averaged 6% historically, as a benchmark. Despite efforts made by the Fed since 2007 to increase liquidity, monetary growth has accelerated only since September, impressively doubling the monetary base (+100.7%). Increases in M1 (17.5%) and M2 (9.5%) were also remarkable over the last year. In the chart below, growth is literally off the charts, so we truncated the plot points to preserve the historical detail. Worldwide money growth has soared and particularly growth in the U.S., exceeding the pre-Y2K surge. While annualized growth of 19% in M2 over the last three months coupled with record low interest rates should be sufficient to bolster the real economy, it also runs the risk of igniting inflation.

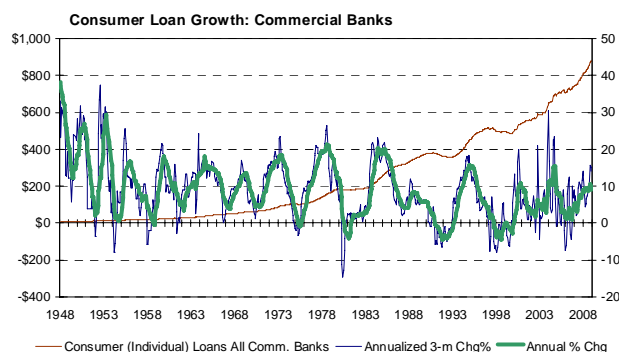
Inflation is contained now because commodity prices have fallen from uncomfortable heights, but the risk is that policymakers won't have enough time to hike rates and withdraw excess liquidity. If monetary efforts are indeed already sufficient, it is conceivable that excessive fiscal stimulus now might be too difficult to reverse and taxpayer dollars will be wasted.

We think lending should expand again with the benefit of new TARP capital and growing deposits due to higher FDIC account limits. If you flood an economy with a vast sum of money at very low rates, history suggests that financial markets and the economy respond positively. A possible reason why it has taken so long for the global economy to respond to easing was because other central banks were simultaneously countering the threat of inflation, including hiking rates.



Source: HighMark Capital Management and Thomson Financial

Historically, bank lending has contracted during recessions and most assume this is the case today. Yet, bank lending has continued to expand at a good clip. Consumer loan growth at commercial banks increased 14.2% annualized rate during the fourth quarter, and was +10% higher over 2008. Business loan growth rose 10% last year, as well. Both were surprising conclusions; however credit was still restricted during 2008, as lack of access to capital markets shut out \$1-2 trillion in new debt and commercial paper issuance. The global slowdown seems to be rooted more in confidence, than other economic slowdowns.



Source: St. Louis Federal Reserve and HighMark Capital

We appreciate the role that the shadow banking system, including debt securitization, played in driving credit growth. Since 2003, even as the Fed tightened money growth and raised interest rates, it had little impact on the economy. Prior this, we can see how changes in monetary liquidity were used to guide the economy in

the chart above, particularly during Chairman Greenspan's tenure. Growth in lending and access to cheap debt through securitization helped fuel the expansion, but when access to capital markets closed down, a severe contraction in access to both debt and equity markets ensued.

The last trough in economic growth occurred in mid-2006, driven by that summer's simultaneous geopolitical concerns in Israel, North Korea, Venezuela, Russia, Iraq, Afghanistan and Nigeria. Once those geopolitical concerns eased, the economy snapped back quickly by the fourth quarter along with a recovery in global equities. We think consumer discretionary income could increase as a combination of lower commodity prices (including energy), drive down prices of goods and services, while lower interest rates reduce adjustable rate mortgage payments and offer many households an opportunity to refinance.

Measures of housing affordability typically include home prices, mortgage rates, and debt-to-income. Mortgage rates are finally drifting lower, wages increased during 2008, and home prices have fallen -21%, according to the National Association of Realtors survey. Housing starts are now just 40% of new household formation, which has helped inventory fall to 9.3 months from a peak last April of 11.2 months. Existing home sales rose in December to a 4.74 million annualized rate, just -3.5% lower over 2008. Mortgage applications for new purchases and refinancing have jumped to the highest level in 5 years, according to the latest report from the Mortgage Bankers Association. These numbers encourage us to think that we are entering a plateau that may actually be a trough. If housing troughs soon, this would be good news for employment in 2009, as a significant portion of job losses this cycle were construction-related.

Many Emerging Markets, which had been keeping the global economy growing during most of 2008, finally slashed rates as well, led by China, India and Korea among others. We have our concerns about Russia, but "BICK" is the new BRIC, substituting Korea for Russia. We expect BICK to emerge more dynamic than before, bolstered by the similar secular themes we have been echoing for several years about urbanization and industrialization, eventually underpinning insatiable consumption among the other 5.5 billion people. Developing economies in emerging Europe and Latin America should not be ignored either.

Earnings are expected to decline over -12% for 2008 according to consensus, but non-financial earnings should rise 2.5%. Investors should know that non-financial earnings didn't peak until third quarter. It is important to recognize the significant influence of Financial Sector write-offs on S&P 500 earnings and book value beginning in 2007. Losses within then the largest sector of the S&P 500 can be traced to write-downs that subtracted almost 80% off earnings through 2008. We have argued that new fair value accounting

rules (SFAS #157) have driven a wide chasm between security prices and the value of their underlying collateral assets in the financial sector.

Default rates have increased marginally for commercial and prime residential mortgage-backed securities, but security prices tied to these sectors have plunged to a far greater extent, discounting lack of liquidity, high risk aversion, and a worsening recession. Actual mortgage losses will take years to tally, but we suspect that security prices will recover a substantial portion of write-offs eventually versus current "fair value" marks. So far, actual realized losses on mostly subprime short-sales and foreclosed housing properties in 2008 are less than 25% of the \$600 billion write-offs recognized due to mark-to-market accounting of securities, according to LoanPerformance, a company that tracks loan losses. Losses on Alt-A loans appear to be less than 1/20th of total subprime realized losses, given a foreclosure rate that is rising, but closer to prime than subprime. Unfortunately, that won't help banks that are increasingly capital constrained under current accounting rules.

Financial sector earnings are expected to rebound in 2009, as write-offs wind-down. Getting back to 60-70% of previous earnings in Financials would have a dramatic impact on S&P 500 earnings. With significant consolidation and rationalization of the financial sector, the survivors will likely be stronger companies that will grow faster and pick up forfeited market share. The arithmetic is critical to understanding the discrepancy between top-down and bottom-up estimates. Top-down earnings forecasting approaches are unreliable at this stage since if they are unable to adjust for extraordinary accounting charges over the last two years. Meanwhile, non-financial companies are in better shape, with 15-16% of capital in cash and historically low leverage ratios. Recoveries historically can provide significant dispersion and, thus, opportunities for active managers.

Earnings	2010	2009	2008	2007	2006
S&P 500 Growth R:	20.2%	-2.2%	-11.9%	-1.6%	15.3%
Consensus	\$ 88.60	\$ 73.72	\$ 75.39	\$ 85.62	\$ 87.04
Financial	39.7%	85.1%	-68.2%	-4.0%	
Non-financial	16.8%	-8.5%	2.4%	2.1%	

Source: Thomson Datastream (consensus estimates)

Many factors contributed to this recession. Surveys suggest deterioration in underwriting standards for residential mortgage loans was a factor, allowing many borrowers to extend beyond their means. It is not surprising that declines in home prices have had such an impact, given little home equity cushion to spare. This recession might have been avoided or at least delayed if not for a gaping void in banking reserves caused by extensive write-offs that fed a negative feedback loop. Securities were marked down in excess of realized loan losses, which has restrained lending activity and undermined investor confidence enough to shut down credit markets. Price discovery became dysfunctional and credit wasn't available at any price or risk premium.

Government Stimulus: Approaching \$825 Billion

We have learned a lot about the effect of monetary and fiscal policy measures in the last 80 years, including specific economic consequences of taxes and spending. Some important truths have emerged from history, although there are meaningful differences in each economic cycle. An economic stimulus package of up to \$825 billion is worth 5.7% of America's \$14.4 trillion GDP output. For comparison, the federal deficit had contracted from \$412 billion in 2004 to \$162 billion in 2007 or just over 1% of GDP. The budget deficit more than doubled to \$410 billion in 2008 due to a decline in tax revenues and the \$152B Economic Stimulus Act.

We observe that rising interest rates, commodity prices, wages, taxes, trade protectionism, unemployment and expanding regulation will reduce profits and national income. We have studied many business cycles and identified some key issues and commonly accepted principals that should be evaluated with respect to any fiscal stimulus:

- Changes in profits and household income have a greater impact on government revenue than tax rate adjustments. Economic growth drives tax revenue.
- Investment incentives provide greater leverage than one-time rebates to taxpayers.
- Budget deficits drive long-term interest rates higher.
- Tax rate uncertainty undermines the efficient allocation of capital and investment.
- There is an optimal level for tax rates that is high enough to generate sufficient revenue, but not so high that it discourages growth or promotes tax avoidance strategies, including cheating or fraud.
- Monetary policy changes typically affect output more quickly than fiscal policy.
- Anticipation of policy changes can have a significantly positive or negative influence before taking effect.
- Complexity is a burden and increases the cost to administer, as well as opening up loopholes.

Congress passed a \$152B stimulus package last year that paid out up to \$600 per household. The stimulus had little, if any, lasting impact because consumers didn't expect any recurring increase in disposable income. Tax cuts have proven time and again to have a greater and more expedient impact. The expected \$825 billion fiscal package, now taking shape in Congress, will add significantly to our nation's debt. The working version is likely to include about 1/3rd allocated to tax cuts and 2/3rd allocated to various spending initiatives.

The average combined federal and state corporate tax rate in the United States is the second highest in the OECD at 39.3%, and in 24 states, companies pay a higher combined rate than Japan's 39.5%. Corporate taxes are passed on to both domestic and overseas consumers as a cost of doing business, so high tax rates put American companies at a disadvantage and become

an incentive to push production offshore. States with higher income, sales and corporate tax rates, as we have in California, put firms headquartered within their borders at a competitive disadvantage. We believe cutting business taxes would stimulate job growth and investment.

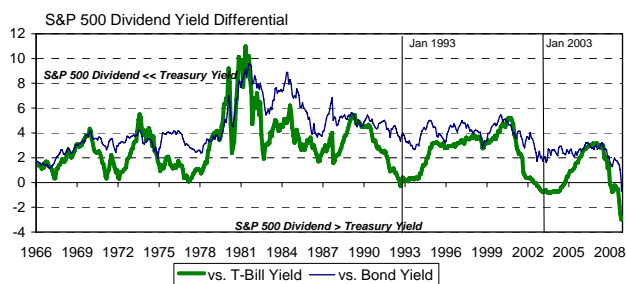
Stimulus legislation has been on a fast track since Congress re-convened. It will help confidence, but there is a risk that by the time fiscal stimulus gets revved up, we may need to offset it with aggressive interest rate hikes and monetary tightening. Additional Treasury issuance to fund tax cuts and spending may also crowd-out investment by driving long-term interest rates higher than otherwise necessary. A greater allocation to tax-cuts would provide budget flexibility should we need to reverse the stimulus. Business tax cuts and investment credits tend to be geared toward driving research and development, innovation, and lower inflation. We hope the right things are done to make a meaningful difference. For instance, supporting education and training initiatives, as recessions often coincide with difficult transitions in workforce needs and in the long run, will help us remain competitive.

Investment Conclusions

Financial market and economic conditions improved considerably in December, although many risks remain and the economy has been severely weakened. In its current state, an unanticipated external shock would likely be more debilitating. Signs of improvement include a decline in the Treasury vs. Eurodollar or TED spread from over 250 basis points to 95 basis points, a contraction in high-yield spreads by 600 basis points and the lowest asset-backed vs. non-financial commercial paper spreads in 14 months, as we've highlighted.

Capital markets still appear to have discounted a severe economic recession. We believe that some exceptional bargains have emerged according to our valuation work within global equities and credit. If earnings can at least plateau near 2008 levels, price/earnings multiples could expand significantly. Massive global stimulus, exceeding \$6 trillion, interest rate cuts worldwide, and lower energy prices should be more than sufficient. Housing affordability has improved materially, with conforming mortgage rates plunging to the lowest level in 50 years, teetering at the critical 5% level. A new wave of refinancing activity has been triggered and mortgage applications are soaring. Low interest rates are causing adjustable rate mortgage payments to decline, alleviating financial stress for many homeowners. Foreclosures, loan restructuring, and refinancing are obliterating large numbers of troublesome outstanding loans. Finally, the effect on disposable income of declining oil prices compared to July's peak of \$147 approaches \$700 billion, given America consumes 18.4 million barrels per day. It appears many key headwinds in 2008 have been reversed or are nearing a trough.

We live in a world today where it is much easier to follow the crowd, but rarely has this worked out in the long-run for investors. HighMark believes in value investing. When stock prices fall, we are compelled to judge whether future earnings support higher prices. Value investors seek out compelling opportunities among individual securities, industries or even markets that appear attractively priced. Value investing is rarely comfortable, but when implemented with discipline, has shown historically to be profitable. We know that equity markets tend to overshoot in both directions, due to a variety of behavioral tendencies. Sometimes value investors are early and occasionally succumb to value traps. We believe U.S. equities provide an exceptional investment opportunity from current valuation levels, whether prices are compared to dividends (below), earnings or book value. Not since the 1950s have we seen valuations similar to current levels. We believe that stocks will outperform bonds in 2009.



Source: HighMark Capital Management and Thomson Financial

Other attractive investment opportunities include our continuing preference for U.S. stocks versus MSCI EAFE (international equities) and small-cap stocks. We also recommend an overweight to high-yield. Treasuries

may seem like the safest place to hide, but we are most concerned about the prices of Treasury bonds, as money flows from risk adverse investors have pushed yields down to an unsustainable level of 2.2% at year-end. Once economic traction improves, inflation concerns will likely increase. At that point, unwinding all the many forms of extraordinary stimulus will be a tricky workout. Any improvement in economic or earnings growth visibility will be supportive to equities and credit market spreads versus Treasuries should tighten. However, fixed income returns will be limited by interest rate risk that likely pushes up Treasury yields. Corporate deals sidelined in 2008, should be priced at a compelling yield-to-Treasuries to attract investors to buy the significant backlog. Capital flows from bonds to stocks may also lie ahead, as differential asset class returns induce re-balancing of many balanced portfolios.

Capital markets tend to anticipate economic recovery by six-to-nine months, well before economic trends reverse. We believe policymakers have implemented some creative solutions that address many specific problems and we expect them to be successful. Their initiatives should work in a complementary way to restore equilibrium to capital markets and bolster confidence. With compelling global equity valuations, it would seem a shame to waste such an opportunity. We know that America is not fragile or inflexible, but it may take time for policy stimulus to gain traction. We think it is possible for America to pull out of this decline quickly, given that we are *Flirting with Zero and All That Jazz*.

David Goerz, SVP - Chief Investment Officer

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