

Market Update



Evergreen Investments™

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Market Performance

As the month of June has progressed, the financial markets appear to be taking somewhat of a breather after their massive sprint higher during April and May. In the equity markets, daily trading volume has moderated, yet month-to-date gains have been experienced in areas such as small caps, growth and technology. On a quarter-to-date basis, the major market indexes (Dow 30, S&P 500, Nasdaq and the Russell 2000) are all up within the range of +5.0%. International indexes have pulled back in the past few weeks, but the year-to-date gains in emerging markets remain particularly impressive. In the fixed income markets, the yield on the benchmark 10-year Treasury continues to climb higher, as fears escalate relative to government spending, the potential for pricing pressures and dollar weakness. It is important to note that yields in the 2.0% range at the start of this year were factoring in the end of the world – thankfully, those fears proved premature and consequently, yields have begun to normalize as signs of stability have emerged regarding the flow of credit. These signs may be most evident in the corporate and high yield markets, where both issuance and performance remain solid despite the recent trajectory of the 10-year Treasury. Gold has pulled back in the past few weeks, while oil has continued to climb, a development we would attribute to investor speculation rather than global demand. Please see Chart 1 for more details of Market Performance.

U.S. Economy

Recent economic data point to activity that is managing to climb from the depths of the past two quarters, but still struggling to emerge from recession. Indeed, hopes for a rebound remain hinged on government spending and a rebound in manufacturing based on depleted inventories. To the extent these developments would spur consumption and export growth, it is possible that gross domestic product (GDP) could see positive gains before the end of 2009. Yet we would consider these to be transitory since they are cushions, rather than catalysts, for economic output. The catalysts necessary for a successful rebound in the economy, in our opinion, remain stability in home prices and employment growth. Unfortunately, neither of these areas are showing signs of significant improvement, particularly with the -16.2% year-over-year decline in household net worth through March.

As a result, we believe the growing inflation fears are overdone. The economic school of monetarism (inflation is always and everywhere a monetary phenomenon!) suggests that the global surge in government spending will trigger pricing pressures and we would agree, but just not yet. Global growth is receding, oil prices remain 50% lower than last summer, and domestic home prices continue their descent. Moreover, wages represent the largest costs for businesses and with below trend growth and an unemployment rate headed toward 10%, it is

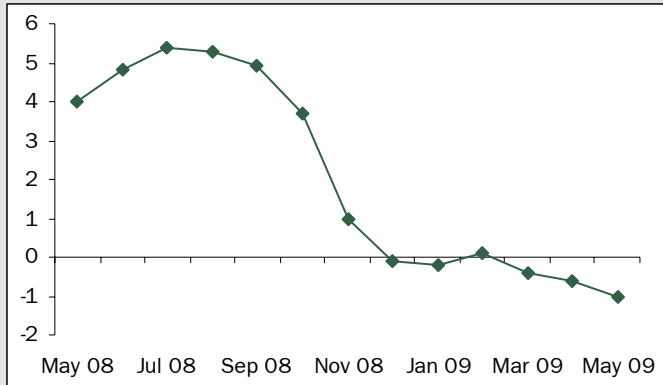
1. Market Performance as of 6/17/09

EQUITIES	6/17/09 LEVEL	MTD TOTAL RETURN	YTD TOTAL RETURN
Dow Jones Industrials	8,497.18	0.1	-1.5
S&P 500	910.71	-0.8	2.1
NASDAQ	1,808.06	1.9	14.6
Russell 2000	507.03	1.2	2.3
S&P MidCap	571.66	-0.6	7.2
Russell 1000 Growth	406.34	0.2	10.5
Russell 1000 Value	459.79	-2.0	-4.1
MSCI EAFE	1,289.03	-2.0	6.4
MSCI (Emerging Markets)	749.02	-3.0	33.7
FIXED INCOME	6/17/09 LEVEL	MTD TOTAL RETURN	YTD TOTAL RETURN
10-Year Treasury	3.65	-1.3	-9.8
Barclays Aggregate	4.24	0.0	1.3
Barclays Municipal	4.14	-1.1	6.2
Barclays Corporate	6.12	1.8	7.3
Barclays High Yield	12.67	3.1	30.7
Barclays Mortgage	4.32	0.0	2.8
Barclays Global ex. US	2.49	-1.0	-1.8
COMMODITIES & CURRENCIES	6/17/09 LEVEL	MTD TOTAL RETURN	YTD TOTAL RETURN
CRB Index	256.82	1.5	11.9
Crude Oil - WTI	71.03	7.1	59.3
Gold	936.00	-4.5	5.8
Trade Weighted Dollar	80.58	1.4	-1.9

Source: Factset, Bloomberg, Barclays, Evergreen Investments.
*Total Return includes price appreciation & dividend income for equities.
Past performance is not indicative of future results. It is not possible to invest directly in an index.

unlikely that true inflationary pressures are poised to develop in 2009. Perhaps these trends are best illustrated in the May Consumer Price Index (CPI), which showed a month over month increase of just +0.1% and a year-over-year drop of -1.3% in its headline measure. See Chart 2.

2. Consumer Price Index (CPI) - YOY% Change



Source: Baseline and Evergreen Investments

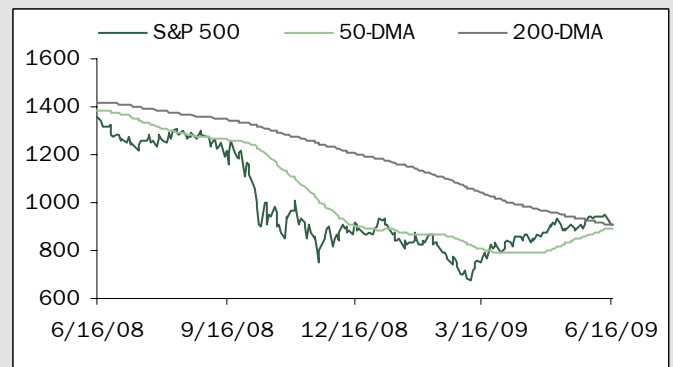
Equity Market—Technical Review

The S&P 500 Index has now rebounded by approximately 35% from the lows reached on March 9th. See Chart 3. Despite this rally, cash positions in institutional funds and money market asset levels remain high, suggesting investors may continue to chase this rally over the next two weeks as trading in the second quarter concludes. Indeed, the market's technical strength was augmented by the S&P 500's recent crossing of its 200-day moving average (DMA), an event last experienced more than one year ago. If the market can sustain this action, a move above the 940-950 range could potentially trigger enough buying power to quickly propel the index above the 1000 level. Perhaps more important, the index's 50-day moving average is now within 1.5% of its 200-DMA. Should the 50-DMA exceed the 200-DMA, this "Golden Cross" would be another major technical development for the market. Since 1929, in nine of the previous twelve bear markets (75%) when this cross occurred, a new cycle low failed to materialize.

While this cyclical momentum is difficult to deny, we remind investors that it is largely based on excess cash levels and anticipation of an inventory re-build, which we would view as a transitory economic development. Market euphoria based on economic data that is simply "less bad" may be short lived and cor-

porate pre-announcements suggest another disappointing earnings season is just around the corner, beginning in the middle of July. Indeed, the market's historical corrective chart patterns typically involve a 50% retracement from a rally's gain, indicating the possibility for a move back toward the 800-840 range as questionable fundamentals such as poor earnings, rising interest rates and the housing slog may begin to weigh on investor sentiment. Since the solvency of the banking system is no longer in question and the mark-to-market accounting rules have been altered, though, we would consider it a very low probability that the doomsday scenarios priced into the market last March will return. In addition, a pullback to the 800-840 range for the S&P 500 this summer could help establish a pattern of "higher lows" for stocks in this cycle, which history has shown to be a necessary stepping stone for sustainable market recoveries.

3. S&P 500 vs. Moving Averages



Source: Baseline and Strategas Research Partners



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John is a Managing Director and Chief Market Analyst for Evergreen Investments. A member of the firm's Investment Strategy Committee, John uses a top-down, macro-economic approach in his analysis of the financial markets. He has been featured in various media outlets, including CNBC, BusinessWeek, CNN-Money, Bloomberg News and The Wall Street Journal.

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