Weekly Market Commentary

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M&A Revival Heralds Pick Up in Hiring

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Highlights

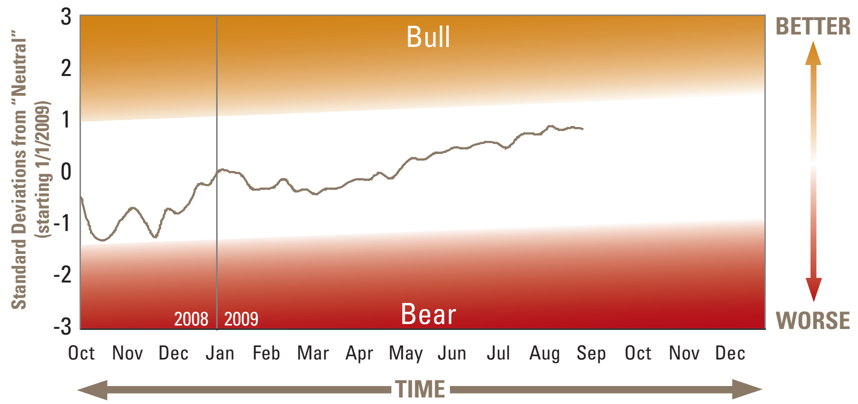
We believe the recent upturn in merger and acquisition activity may be a sign that the improvement in the economy and credit markets has been sufficient to restore enough confidence to lift business spending.

In the past, a revival in M&A deals was a sign that businesses were ready to prepare for growth by hiring workers. During the last cycle, job growth finally turned positive in the fourth quarter of 2003–the same time M&A activity revived. While a lagging economic indicator, a turnaround in employment is essential to a sustainable recovery.

Over the past month, the sectors where we have seen the most deals—Health Care, Information Technology and Consumer Discretionary—have outperformed.

The LPL Financial Current Conditions Index shows us that the economy and markets have improved substantially from back in the first quarter of the year, but how can we know if it is good enough? Are business leaders still nervous enough to hold back on hiring, purchases, and other investments necessary to sustain the emerging recovery? We believe the recent upturn in merger and acquisition (M&A) activity may be a sign that the improvement in the economy and credit markets has been sufficient to restore enough confidence to lift business spending.

1 LPL Research Current Conditions Index



Source: LPL Financial

M&A activity has often been an indicator of the return of business confidence and improvement in the credit markets. Companies often shift their concern from weathering the downturn to taking advantage of opportunities for growth in part by buying up their competitors at relatively cheap prices once the economic backdrop and credit markets improve sufficiently. For example, it was not until late 2003 and early 2004 that M&A activity finally confirmed the recovery in the last cycle, which came about 9 -12 months after the stock and credit markets began to recover in March of 2003. In late 2003, after an extended period of very little M&A some of the most eye-catching transactions were Anthem's $16.4 billion acquisition of WellPoint Health Networks and Bank of America's $47 billion deal with FleetBoston Financial. Then in early 2004, JPMorgan's $58 billion takeover bid for Bank One represents the largest merger in the US banking sector since the 1990s.

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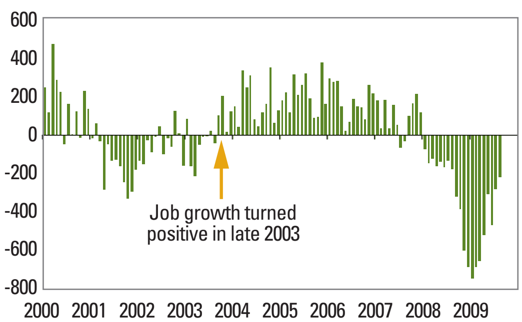
2 Employment Growth Turned Positive as M&A Picked Up

Change in U.S. Non-Farm Employment



Source: LPL Financial, Bloomberg

Importantly, the M&A deals were signs that businesses were ready to prepare for growth by hiring workers. During the last cycle job growth finally turned positive in the fourth quarter of 2003 at the same time M&A activity revived. The return of M&A activity in the US bodes well for employment. Friday's employment report for the month of August reflected a net loss of 216,000 jobs in the U.S., reflecting a continued pace of improvement from the 741,000 jobs lost in January. If the pace of improvement over this year continues in the labor market, we will start to see net job growth begin sometime during the fourth quarter of this year and first quarter of 2010. While a lagging economic indicator, a turnaround in employment is essential to a sustainable recovery.

IN THE LAST WEEK, SEVERAL DEALS WERE ANNOUNCED:

Target	Acquirer	Data	Size in $B
Cadbury PLC	Kraft	9/7	19.557
BJ Services Co	Baker Hughes Inc	8/31	5.528
Marvel Entertainment Inc	The Walt Disney Co	8/31	3.834
Chartered Semiconductor	Advanced Technology Investment LLC	9/7	2.530
Sepracor Inc	Dainippon Sumitomo Pharma Ltd	9/3	2.336
Skype	Consortium	9/1	2.025

We expect more in the coming months. The credit markets have healed enough to allow specialty drug maker Warner Chilcott Ltd to raise about $4 billion to refinance debt and purchase Proctor & Gamble's drug business on August 24. M&A deals often require short and long-term debt financing. While we believe there is still more room for improvement in the bond markets, yields are very low on an absolute basis – with single-A rated corporate debt yielding just over 6%.

The deal premiums have been in the 13% to 33% range. This bodes well for the valuation of targets and their peer companies. Over the past month, the sectors where we have seen the most deals—Health Care, Information Technology and Consumer Discretionary—have outperformed. We expect M&A activity to continue to be concentrated in these sectors.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

Investing in international and emerging markets may entail additional risks such as currency fluctuation and political instability. Investing in small-cap stocks includes specific risks such as greater volatility and potentially less liquidity.

Stock investing involves risk including loss of principal Past performance is not a guarantee of future results.

Small-cap stocks may be subject to higher degree of risk than more established companies' securities. The illiquidity of the small-cap market may adversely affect the value of these investments.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise and are subject to availability and change in price.