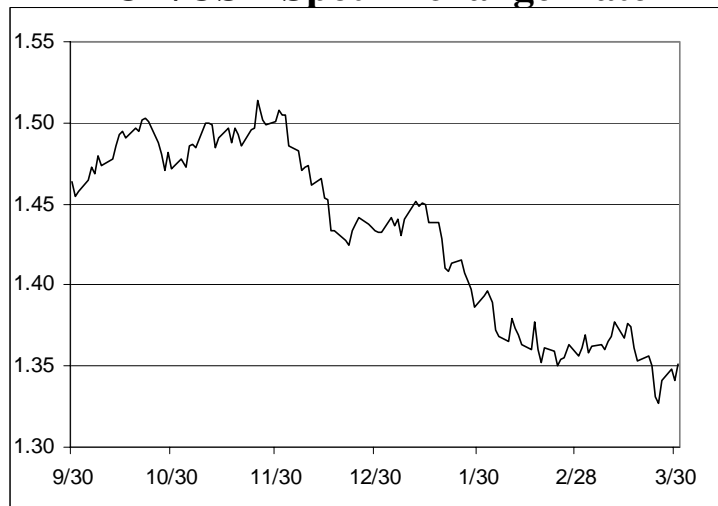


Scorecard through March 2010

Total returns unless otherwise specified

Index	Q1	2009	2008
EQUITY			
S&P 500	5.39%	26.46%	-37.00%
DJIA	4.82%	22.68%	-31.93%
MSCI EAFE	0.94%	32.46%	-43.06%
MSCI Emerging Markets	2.45%	79.02%	-53.18%
FIXED INCOME			
Barclays Agg.	1.78%	5.93%	5.24%
Barclays TIPS	0.57%	11.41%	-2.35%
High Yield	3.01%	44.46%	-23.88%
ALTERNATIVE INVESTMENTS			
US Dollar Index	4.13%	-4.24%	6.01%
Commodities	-0.89%	13.49%	-46.49%
Oil Total Return	3.93%	7.15%	-55.37%
Gold Spot	1.49%	24.36%	5.77%
Hedge Fund Index	1.63%	13.40%	-23.25%
KEY RATES as of			
	3/31/10	12/31/09	12/31/08
3 mo. T-bill Yield	0.16%	0.06%	0.11%
10-yr. Treasury Yield	3.84%	3.85%	2.25%
30-yr. Mortgage Rate	5.12%	5.33%	5.26%

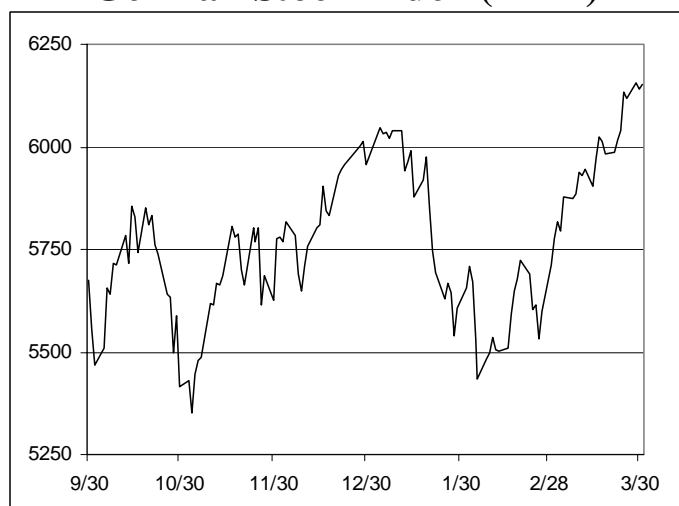
Please refer to index key on page 4

EUR/USD Spot Exchange Rate


Bloomberg, 09/30/09 through 03/31/10

Key Points of Q2 Capital Markets Outlook:

- *Investors need to be aware of the effect of budget deficits on both the capital markets and politics*
- *In the US, state and local fiscal problems are not to be overlooked as they continue to shape the horizon*
- *The state of global economic interdependence will challenge any lingering assumptions of a smooth recovery*

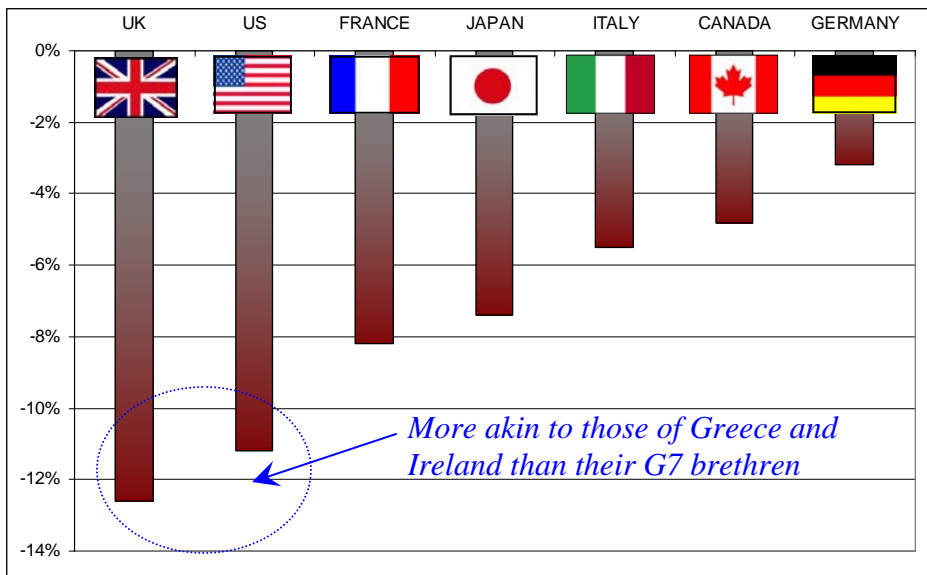
German Stock Index (DAX)


Bloomberg, 09/30/09 through 03/31/10

**Capital Markets Outlook
Stephen P. Burke**

Globally, investors have finally begun to comprehend the magnitude of structural challenges facing the globally economy and potential implications for capital markets. Investor apathy toward massive fiscal imbalances across the globe and the associated cost of averting financial Armageddon in 2008 has quickly vanished. Greece may turn out to be the tipping point (just as Thailand was in 1997) but if not, Portugal, Ireland, Italy and Spain stand ready to oblige. Massive deficits in the United States and United Kingdom have yet to rile investors but ultimately supply/demand forces shall necessitate high government bond yields for both countries.

G7 Deficits as % of Nominal GDP



Source: Bloomberg, OECD, Pelagos Capital

Budget deficits throughout most of Europe and the US present material political hurdles and deficits ultimately pose challenges to the ongoing economic and capital market recovery. “Austerity measures” is just a euphemism for higher taxes, reduced government spending and less efficient use of capital.

In Europe, expanding budget deficits and accumulating debt, unchallenged for years, threaten the Euro and the European Union itself. The measures required to close these cavernous deficits must come from political willingness and tangible actions rather than from IMF, EU, or even ECB bailouts. Ultimately, bailouts only serve as near-term stabilizers for sovereign debt spreads and funding costs as structural problems are often left in place. Coordinated funding vehicles that allow debt-laden countries access to cheaper debt, at the end of the day, do not eliminate overwhelming debt burdens. Meaningful debt relief is achieved through fiscal rigor and/or debt restructuring; the latter would seem to be off the table for eurozone members, as far as policy makers are concerned, but will likely resurface as austerity pressures mount. Greece, along with several of the aforementioned offenders has debt and a deficit that, relative to economic output, arguably requires aggressive austerity measures along with a revaluation of debt (cramdown) and currency devaluation. However, countries in the eurozone cannot devalue their currencies in isolation. Given Greece’s et al. membership in the eurozone, currency devaluation would seem currently untenable. It is hard to imagine that such unattractive options will not resurface as social pressures mount.

Predicting longer-term consequences for the Euro is a formidable task, but rest assured that the Euro has not found its bottom and calls from the populace to show certain members the door will grow louder throughout Europe, especially



“current interest rate levels are a reflection of desperate measures”

from those countries that have exercised fiscal prudence, namely Germany. Debt restructuring, if it comes to that, should have limited effect on the global economy but could prove to be quite disruptive to the global capital markets.

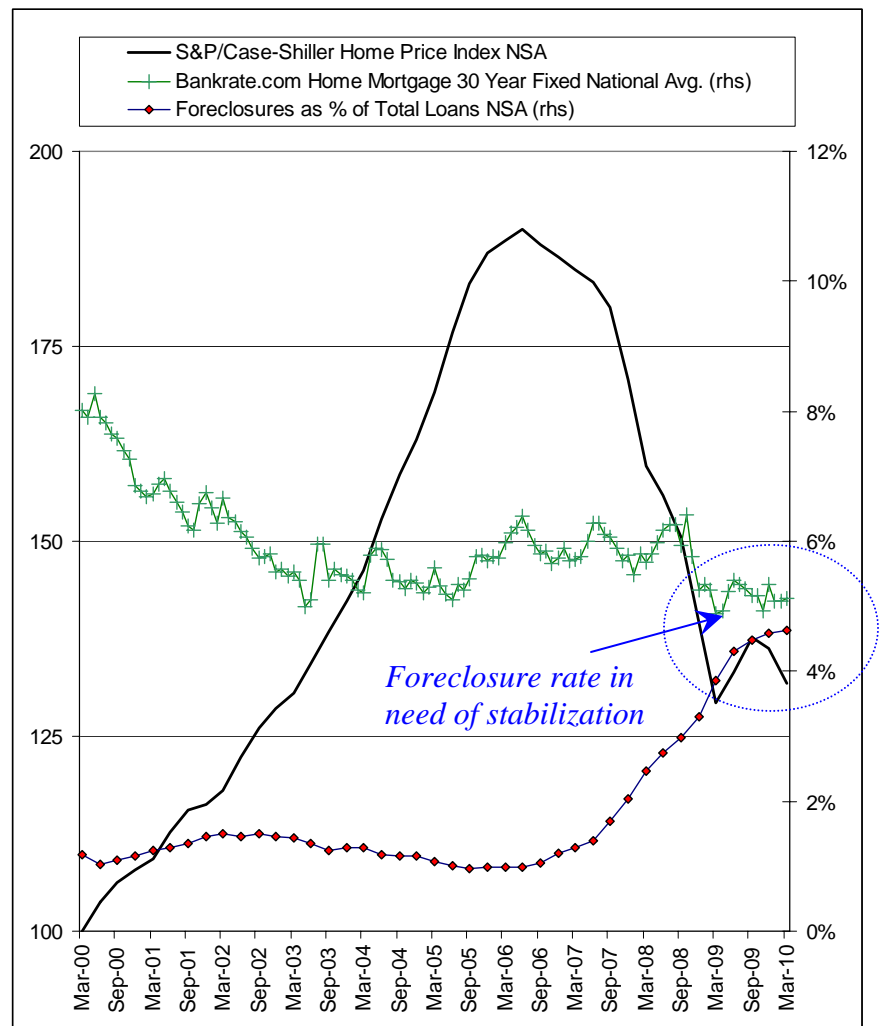
Emerging economies and capital markets, which had benefited from the 2009 risk-trade, are showing signs of strain. Economic growth achieved largely through asset price appreciation has policy makers walking a fine line and nowhere is this more apparent than in China. China’s inability to create meaningful domestic demand has the economy addicted to speculative lending resulting in inflated real estate and equity prices which, if allowed to persist unabated, will rest-assured end badly as it did in the US. Emerging economies have largely avoided the debt trap currently engulfing the developed world but collateral damage within their capital markets would seem unavoidable given their linkages to the developed economies.

In the US, economic growth should moderate going forward as fiscal assistance dissipates and state and local financial woes accelerate. Unemployment at nearly 10% coupled with the enormous output gap (actual growth of US economy versus potential growth) suggests limited job creation over the next twelve months. US housing prices have seemingly stabilized but foreclosures continue to rise at an alarming rate with few signs of subsiding this year. Earnings should remain strong for the remainder of the year and into the first half of 2011 but slowing global demand will undoubtedly affect earnings growth in 2011.

Global equity valuations, given the level of global interest rates, are arguably cheap from a historical perspective. However, current interest rate levels are a reflection of desperate measures taken by central bankers and thus should have limited influence on equity valuations.

For the remainder of 2010 investors should realize that the healing process for the global economies will come with successes and failures. The headline risk out of Europe will continue to ebb and flow. Fiscal imprudence in the US and UK should at some point catch the ire of investors. Over the next several quarters investors will come to grips with the indebted developed economies and unpleasant solutions that are required to deal with them.

United States Housing Market



Source: Bloomberg, Pelagos Capital

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Index Key: Standard & Poor's 500 Index, Dow Jones Industrial Average Index, MSCI EAFE Index (Gross), MSCI Emerging Markets Index (Gross). Barclays TIPS Index, Barclays Aggregate Bond Index, iBoxx \$ Liquid High Yield Index. US Dollar Index, S&P GSCI Commodity Index Total Return, S&P GSCI Crude Oil Total Return Index, Gold Spot price, Hedge Fund Research HFRX US Global Hedge Fund Index. Constant maturity 3 mo. Treasury, constant maturity 10 year Treasury, Bankrate.com US Home Mortgage 30 Year Fixed National Average. Inclusion of indexes mentioned is for illustrative purposes only. Keep in mind that an individual can not invest directly in any index and that index performance does not include transaction costs or other fees, which will affect actual investment performance.

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