



# Parametric™

Leaders in Structured Portfolio Management

## MARKET COMMENTARY

2nd Quarter, 2008



**Tom Seto**

Director — Portfolio Management

### About Parametric

Parametric is an industry-leading provider of structured portfolio management, headquartered in Seattle, Washington. Parametric and its affiliate, Parametric Risk Advisors, offer a variety of structured portfolio solutions, including customized core equity portfolios (U.S., Non-U.S., Global Tax-Managed Core™), options strategies (DeltaShift™), emerging markets (Structured Emerging Markets™), and overlay portfolio management (OverlayOne™).

### Parametric

1151 Fairview Avenue N.

Seattle, WA 98109

T 206 694 5500

F 206 694 5581

[www.ParametricPortfolio.com](http://www.ParametricPortfolio.com)

### Domestic

US equities rallied much of the second quarter, but optimism was premature as skyrocketing oil prices and accelerating inflation weighed on markets. The S&P 500 Index finished the quarter down 2.7%. Financials were hammered again, down 18.3%, now losers four quarters in a row. Financial services stocks have lost almost half their value in the past 12 months. On the flip side, energy stocks continued to soar, up 17.3% for the quarter, bolstered by record-setting oil prices surpassing \$140/barrel. Growth outperformed value (S&P 500/Citigroup Growth Index, 2.1%; S&P 500/Citigroup Value Index, -7.8%), as investors moved away from the financial and cyclical stocks that dominate the Value Index. Mid-cap and small-cap stocks were in positive territory for the quarter (S&P MidCap 400 Index, 5.4%; S&P SmallCap 600 Index, 0.4%). Looking forward, the market faces the obstacles of rising interest rates, fragile credit markets, slowing growth and accelerating inflation. Consumer confidence is at a 16 year low and housing prices posted their largest year-over-year decline on record. Furthermore, the meteoric rise in oil prices threatens the purchasing power of consumers and corporations. Among this uncertainty, our broadly diversified, sector-neutral Tax Managed Core portfolios seek to provide a great opportunity to capture the next market leaders, while doing so in a tax efficient manner.

### International

International markets started the quarter in positive territory, but ended lower as inflation worries surfaced. The MSCI EAFE Index was down 2.25% and the emerging markets MSCI EM Index was down 0.86% for the quarter. In developed markets, weakness across Europe dragged down returns as economic activity slowed and the ECB talked of raising rates. Japan's 2.5% return was a bright spot as inflation seems to be less of a threat. Financials were again the worst performing sector, down 11% while energy stocks, up 17%, contributed most positively. In emerging markets, Asia led the index lower as India (-20%), Taiwan (-11%) and Korea (-8%) contributed significantly to the downside. Energy and commodity rich nations such as Brazil (18%) and Russia (11%) contributed most positively bringing returns to almost flat for the quarter. Looking forward, fear of inflation takes center stage as central bankers around the world turn hawkish and increase rates.

### Disclosures

This information should not be considered investment advice or a recommendation to buy or sell any particular security. The information in this material and specific securities mentioned are not representative of all securities purchased, sold or recommended for advisory clients. Actual portfolio holdings will vary for each client and there is no guarantee that a particular client's account will hold any, or all, of the securities identified. It should not be assumed that any of the securities or recommendations made in the future will be profitable or will equal the performance of the listed securities. It is not possible to invest directly in an Index. Past performance does not predict futures results.