Market Update

Evergreen Investments™

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In This Issue:

- Market Performance
- U.S. Economy
- Federal Reserve
- Equity Rally

Market Performance

Stocks continued to rally off their March 9th lows during April, with international and small cap stocks leading the gains. Despite Federal Reserve efforts to purchase government securities, the yield on the 10-year Treasury backed up 45 basis points in April. Most commodities rose while gold and the dollar slid last month. For more details of Market Performance, see Chart 1.

U.S. Economy

First Quarter GDP declined at an annual rate in excess of -6.0% for the second consecutive quarter, reflecting the weakest six-month period in more than 50 years. Indeed, businesses slashed spending and inventories declined at the fastest pace this decade as confidence in the executive suites across America plunged. The report's housing component, residential fixed-investment, declined by -38.0% after a drop of more than -22.0% last quarter. Personal consumption, responsible for approximately 70% of output, managed to increase in the first quarter by +2.2% after falling -4.3% in the final three months of 2008.

While the spending data offered a glimmer of hope for the financial markets, we are compelled to offer the sobering reminder that some of the factors contributing to personal consumption (increases in mortgage refinancings/tax refunds & decreases in gas prices of up to 50% from this same time last year) are likely an unsustainable combination going forward. Home prices continue to decline and the unemployment rate edges higher, supporting our projection for a "short, fat, lower case U-shaped recovery" characterized by economic data that is simply "less bad" in the coming quarters. While foreclosure sales and an inventory re-build may help support economic activity in the months ahead, we do not see signs of sustainable growth trends emerging until the lagged effects of the massive monetary/fiscal response fully take hold, helping to create a floor in housing and a ceiling on the unemployment rate, hopefully as soon as late-third, early-fourth quarter. See Chart 2.

Federal Reserve

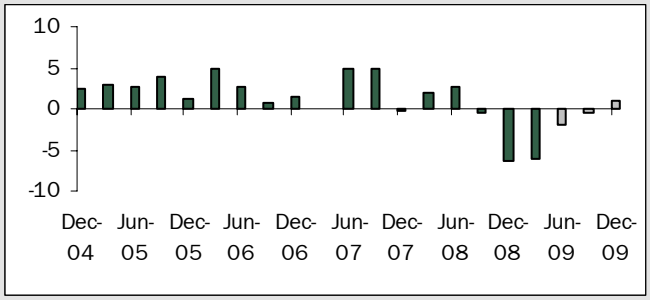
At the conclusion of their most recent (4.29.09) policy meeting, Federal Reserve officials highlighted their intention to keep their target for the benchmark federal funds rate between 0.0% and 0.25% for an "extended period." In addition, the central bank reiterated its commitment to purchase mortgage and Treasury securities in order to improve the flow of credit throughout the economy. While the Fed stated that the economic outlook has "improved modestly" and that there were "tentative signs" that the drop in activity had been "somewhat

1. Market Performance as of 4/30/09

EQUITIES	4/30/09 LEVEL	APRIL TOTAL RETURN	YTD TOTAL RETURN
Dow Jones Industrials	8,168.12	7.6	-5.9
S&P 500	872.81	9.6	-2.5
NASDAQ	1,717.30	12.3	8.9
Russell 2000	487.56	15.5	-1.8
S&P MidCap	561.14	14.9	4.9
Russell 1000 Growth	387.77	9.6	5.1
Russell 1000 Value	443.63	10.7	-7.8
MSCI EAFE	1,185.84	12.8	-2.9
MSCI (Emerging Markets)	662.73	16.6	17.7
FIXED INCOME	**4/30/09 LEVEL**	**APRIL TOTAL RETURN**	**YTD TOTAL RETURN**
10-Year Treasury	3.13	-3.41	-6.00
Barclays Aggregate	4.10	0.48	0.59
Barclays Municipal	3.94	2.00	6.31
Barclays Corporate	7.02	3.47	1.48
Barclays High Yield	15.15	12.10	18.81
Barclays Mortgage	3.93	0.28	2.49
Barclays Global ex. US	2.33	0.88	-5.07
COMMODITIES & CURRENCIES	**4/30/09 LEVEL**	**APRIL TOTAL RETURN**	**YTD TOTAL RETURN**
CRB Index	222.39	0.9	-3.1
Crude Oil - WTI	51.12	2.9	14.6
Gold	891.20	-3.7	0.8
Trade Weighted Dollar	84.78	-1.3	3.2

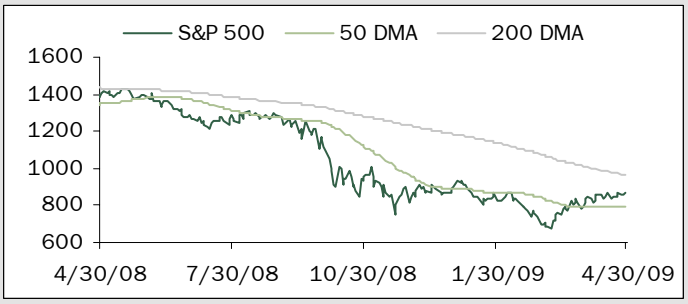
Source: Factset, Bloomberg, Barclays, Evergreen Investments.
*Total Return includes price appreciation & dividend income for equities. Past performance is not indicative of future results. It is not possible to invest directly in an index.

2. Real Gross Domestic Product



Source: Baseline and Evergreen Investments

3. S&P 500 Index



Source: Baseline and Evergreen Investments

slower," policymakers remain concerned that "economic activity is likely to remain weak for a time."

Since they can't take interest rates much lower from current levels, it is evident that policymakers are trying to leave their options open relative to both the timing and the amount of asset purchases (mortgages and Treasuries) as conditions warrant. After the Fed's statement, though, the yield on the 10-year Treasury climbed above 3.0%, suggesting that the bond market is growing concerned about not only the quantity of government debt being issued, but also about how long the Fed is willing to step up as the buyer of last resort. Given their success at keeping mortgage rates low, we suspect policymakers will continue to purchase debt as long as the markets continue to struggle with the interpretation of "less bad" economic data over the next few quarters.

Equity Rally

The equity market, as defined by the S&P 500 Index, has broken through the top end of our projected "sustainable" trading range (650-850) originally highlighted in our March 3rd, 2009 issue of Market Update. Not surprisingly, the calls are coming in to see whether or not our short-term outlook has changed. To be sure, the market's "technicals" have looked very strong of late, with the S&P 500 having managed to move through, and hold above, its 50-day moving average. See Chart 3.

As investors, we are obviously pleased with the market's solid technical rebound from the recent lows. These gains have also been aided by "less-bad" economic data on jobless claims, consumer confidence and manufacturing activity. Yet it is corporate profitability that has us most concerned. First quarter earnings appear to be down by more than one-third from the same period last year. Assuming the S&P 500 reaches our projection for $50.00 in operating earnings in 2009, we are rapidly approaching a P/E of 18 times this year's profits, a level we would consider pricey at this stage of the cycle. Given the still unresolved issues of credit availability, rising unemployment, declining home values, looming auto bankruptcies, and the possibility for more bank re-capitalizations, we believe investors need to prepare for a potential re-test of the March lows in the coming months. Upon successful completion of this test, we look for the market to climb from a much firmer foundation (double-bottom) based on fundamentals such as profit growth in 2010, rather than the euphoric sentiment of recent weeks.

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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.