



**Parametric™**

Leaders in Structured Portfolio Management

# MARKET COMMENTARY

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## 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™).

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## Domestic

The US equity market suffered its worst quarterly decline in 21 years; the S&P 500 Index was down 21.9% in the fourth quarter. Failure was imminent at many of the largest and oldest financial institutions in the US. The National Bureau of Economic Research revealed the economy has been in a recession since December 2007, fourth longest on record. All economic sectors posted negative returns in the final quarter of 2008. Financials were hardest hit (-37%) as the US government became the unintentional owner of troubled financial assets. Cyclical sectors sensitive to changes in the overall economy, such as materials (-31%) and technology (-26%), were also hard hit. Defensive sectors were top performers, such as communications (-1%) and utilities (-1.1%), as investors favored stocks better positioned to weather a slumping economy and slowing profit growth. Growth stocks edged value stocks, largely due to the lack of financials classified as growth. Mid- and small-cap stocks performed slightly worse than large caps. Stocks are now inexpensive by historical measures, but the events of the past year have little historical context. Whether the market collapse of 2008 is another example of an asset bubble bursting or marks a structural change in credit markets, our broadly diversified, sector-neutral Tax Managed Core portfolios will provide a great opportunity to capture the next market leaders, while doing so in a tax efficient manner.

## International

In international markets, all developed and emerging markets finished down in the fourth quarter. The MSCI EAFE index was down 19.95% and the emerging markets MSCI EM Index was down 27.6%. There were no positive individual country returns for 2008 in dollar or local currency terms. In developed markets, financial sector stocks (-33%) were the worst performers and contributed most significantly as the seemingly never ending liquidity crisis continues. The communications sector was the best performer (-4%). The UK (-26%) was hardest hit, not only due to its weakening banks but also because the pound depreciated 19% versus the dollar. Japan, another benchmark heavyweight, was the best performer (-9%) in dollar terms, due to the yen appreciating 17%. In emerging markets, commodity-driven markets Russia (-51%) and Brazil (-37%) contributed most significantly to fourth quarter returns as oil prices steadily fell from their high of \$100 to as low as \$33 during the quarter.

## Disclosures

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