



2006 Markets Performance

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Prepared for:

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Bureau of Business & Economic Research

Prepared by:

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Presented by:

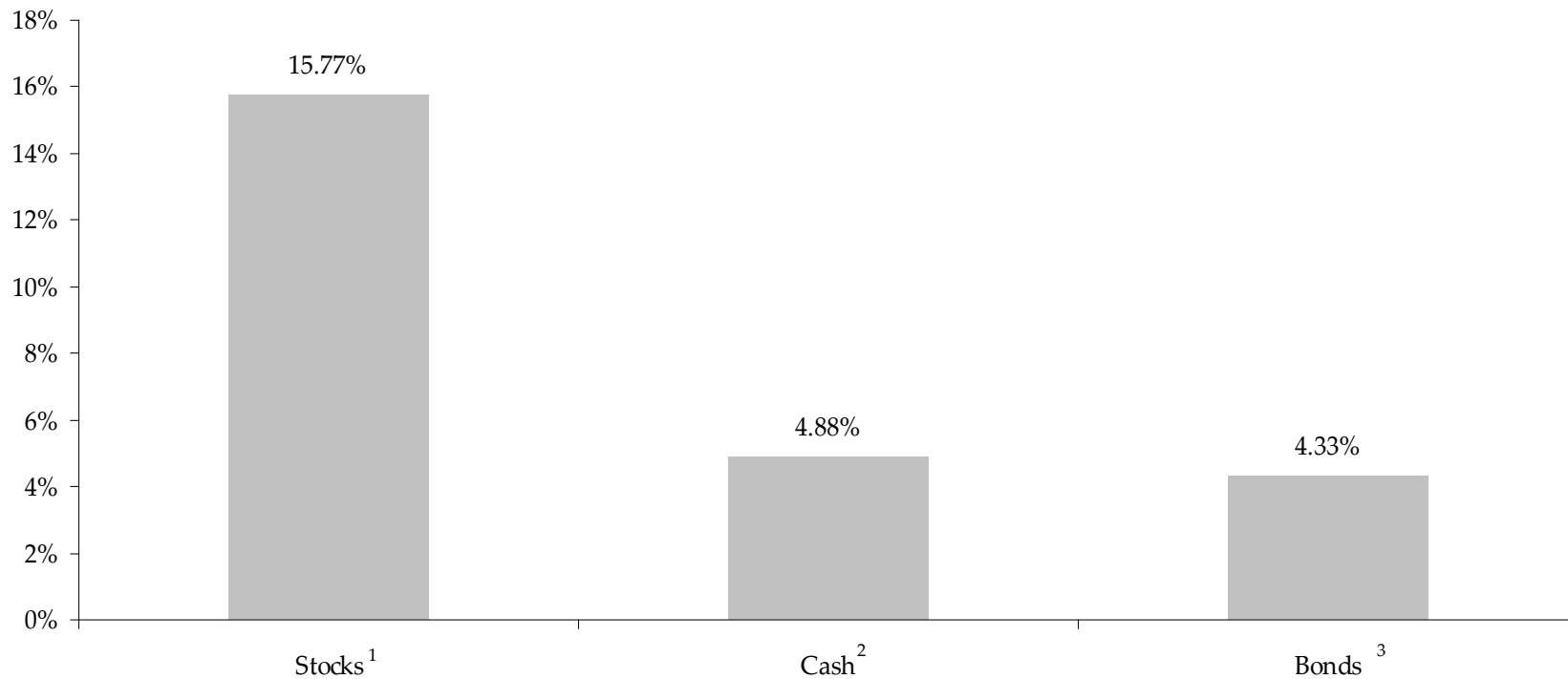
Rick McCann
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First Interstate Bank, Financial Services Division

Sources: Bloomberg, Baseline, Standard & Poor's, Zephyr



Major Asset Classes – 2006 Total Return

Stocks outperform bonds by a wide margin in 2006, 4th consecutive year in which stocks have outperformed bonds



¹ Wilshire 5000 (Measures the performance of all U.S. equity securities)

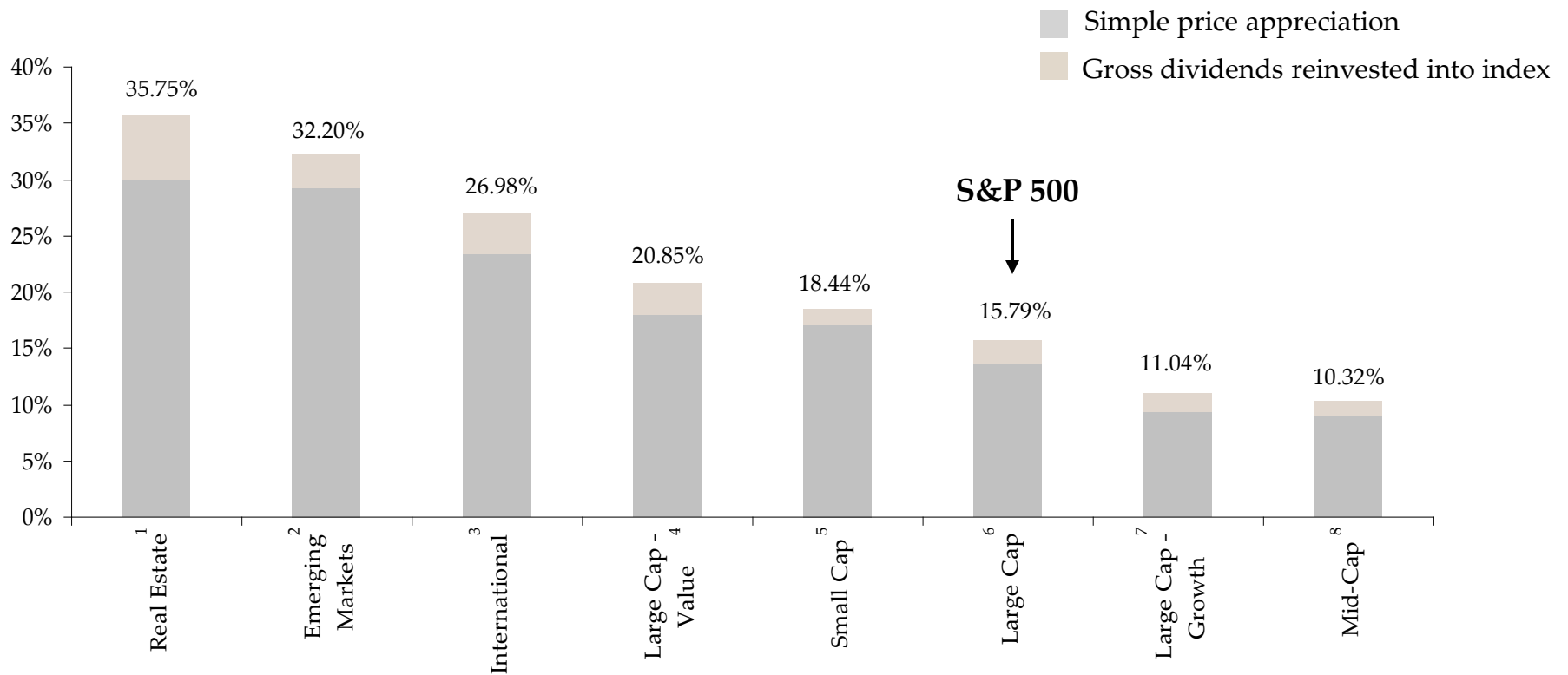
² 90-Day U.S. Treasury Bill

³ Lehman Aggregate Bond Index



Equities – Styles, Caps & Strategies (Total Return)

Inclusion of dividends makes the year even better

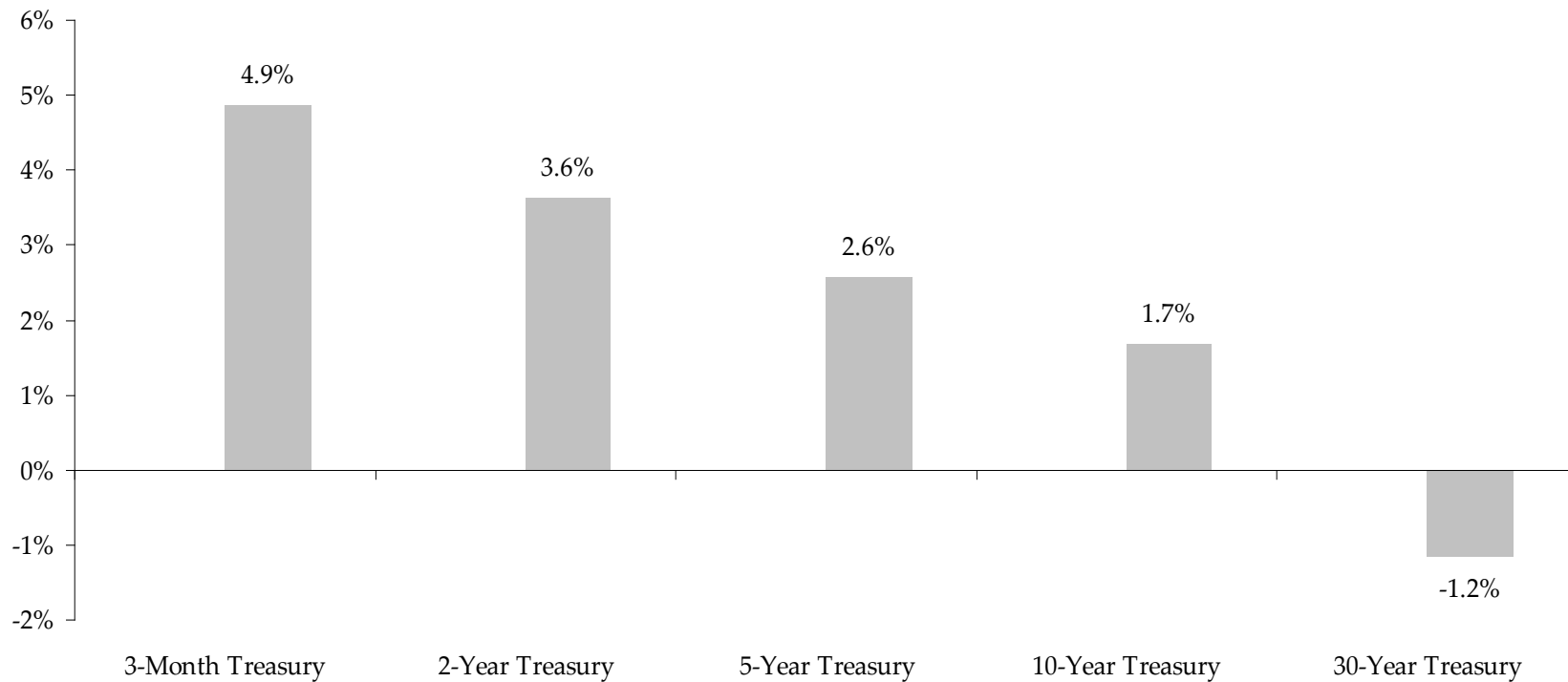


¹ S&P Reit Index ⁴ S&P Citigroup Value ⁷ S&P Citigroup Growth
² MSCI Emerging Markets ⁵ Russell 2000 ⁸ S&P 400 Mid-Cap
³ MSCI EAFE ⁶ S&P 500



Fixed Income – Generic U.S. Treasuries (Total Return)

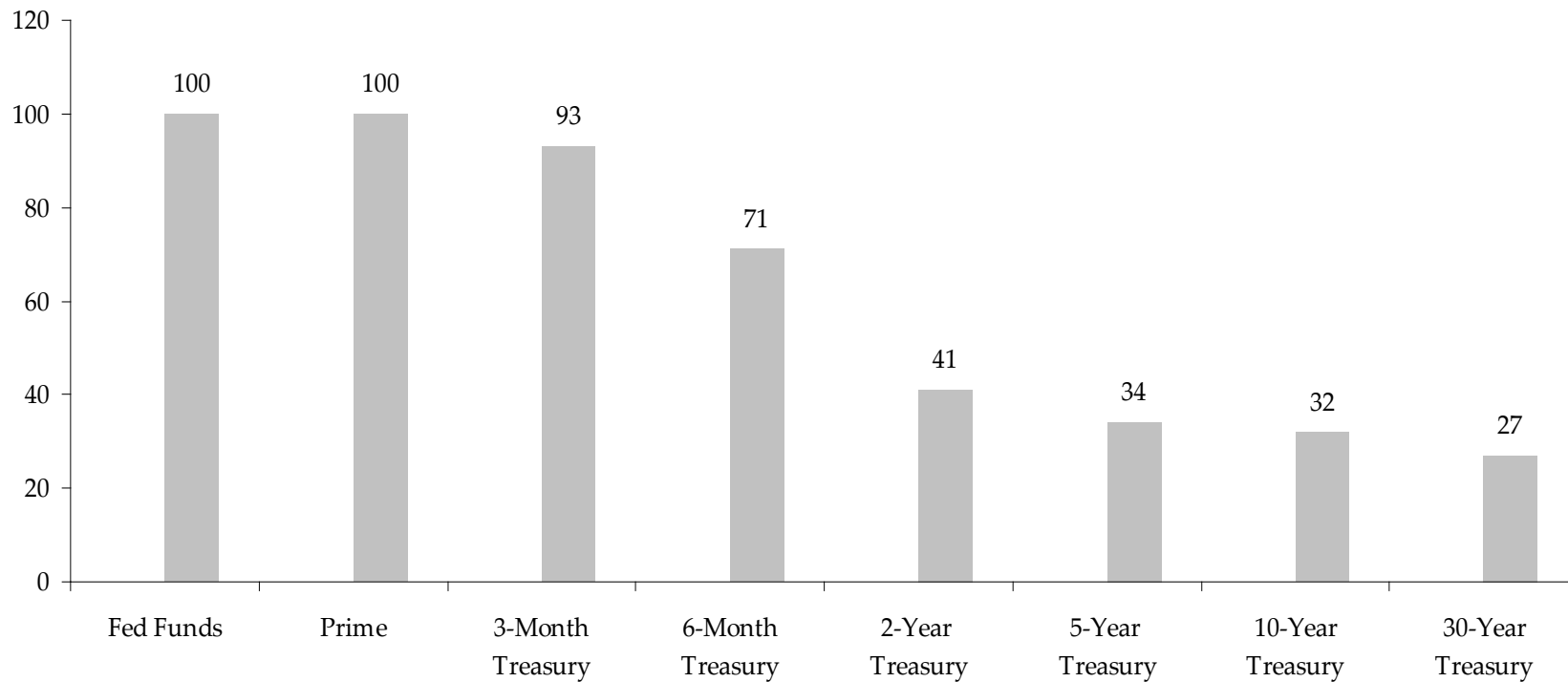
Short-term bonds outperform intermediate & long-term bonds





Fixed Income – Yield changes (in bps)

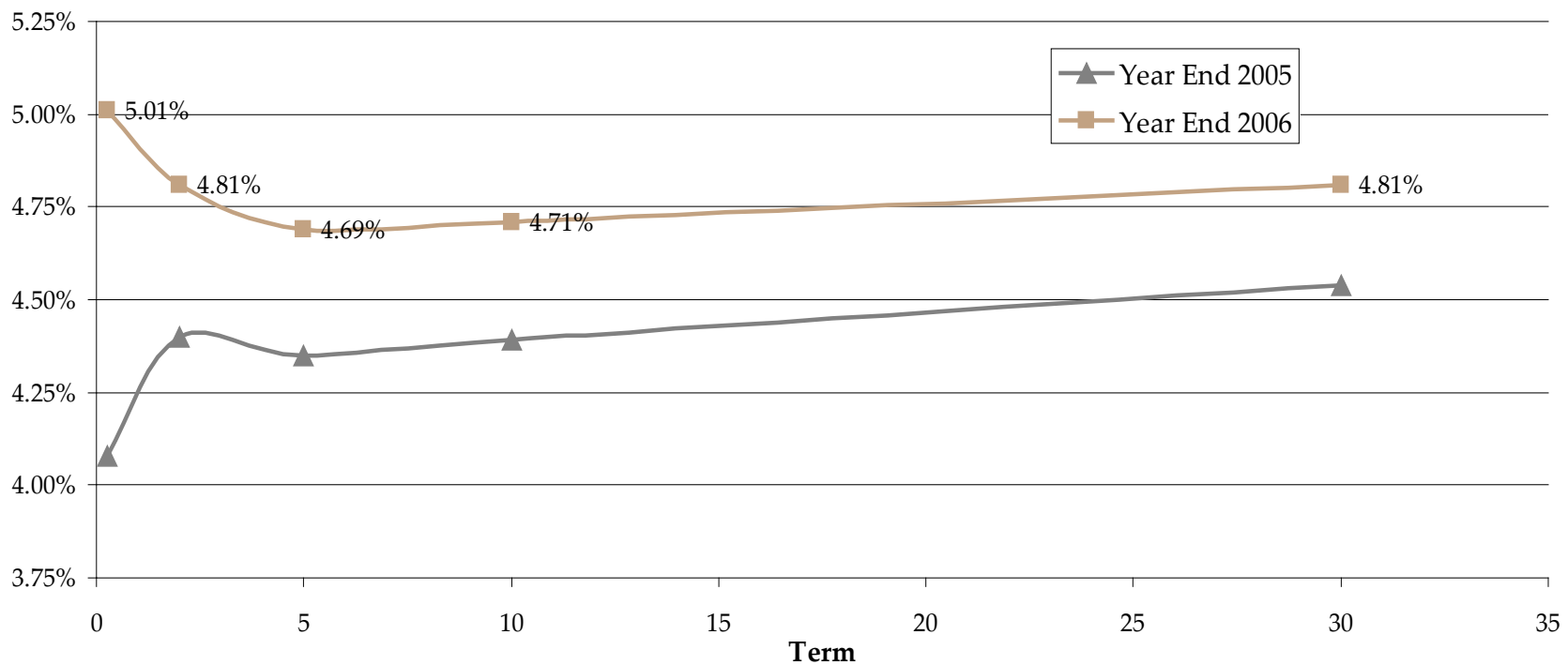
Short yields rise in response to Fed changes





Fixed Income – Yield Curve Shift

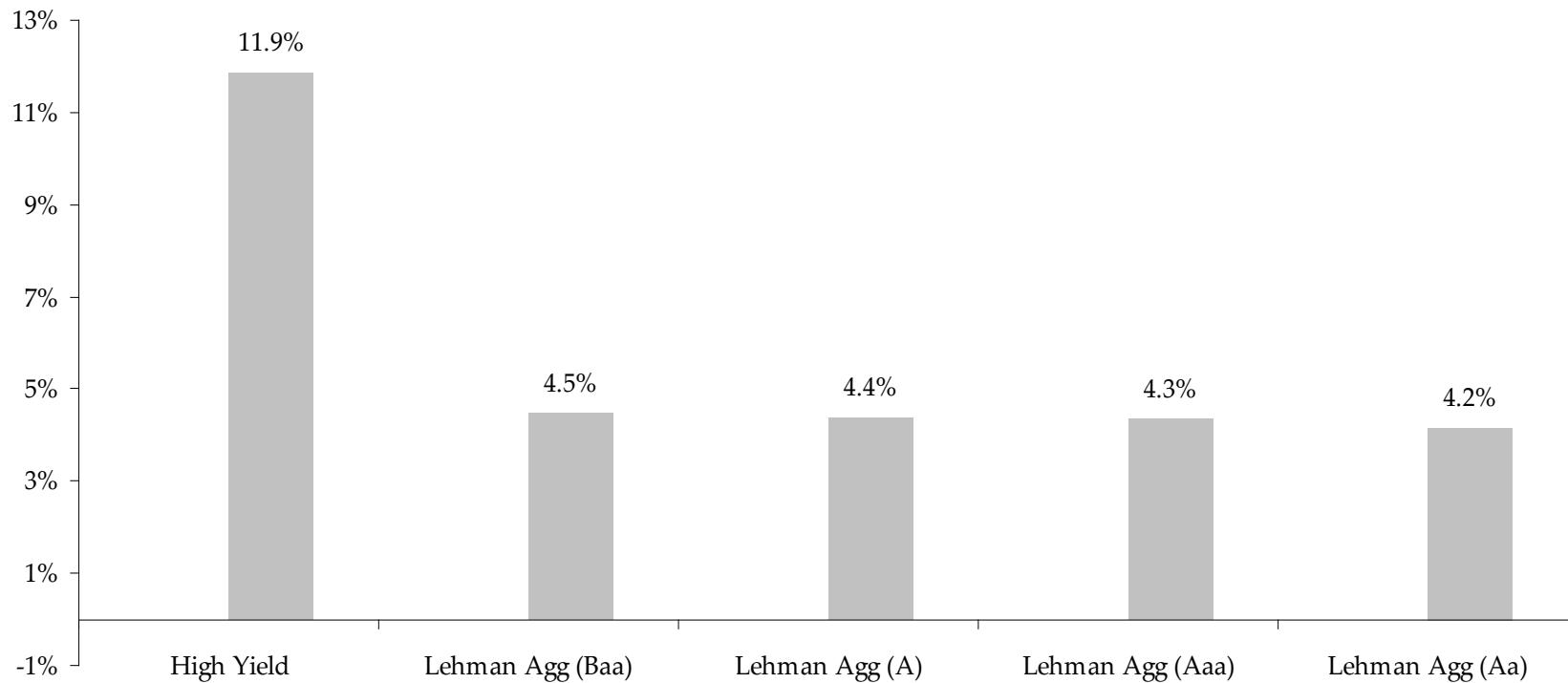
Curve inverts in 2006





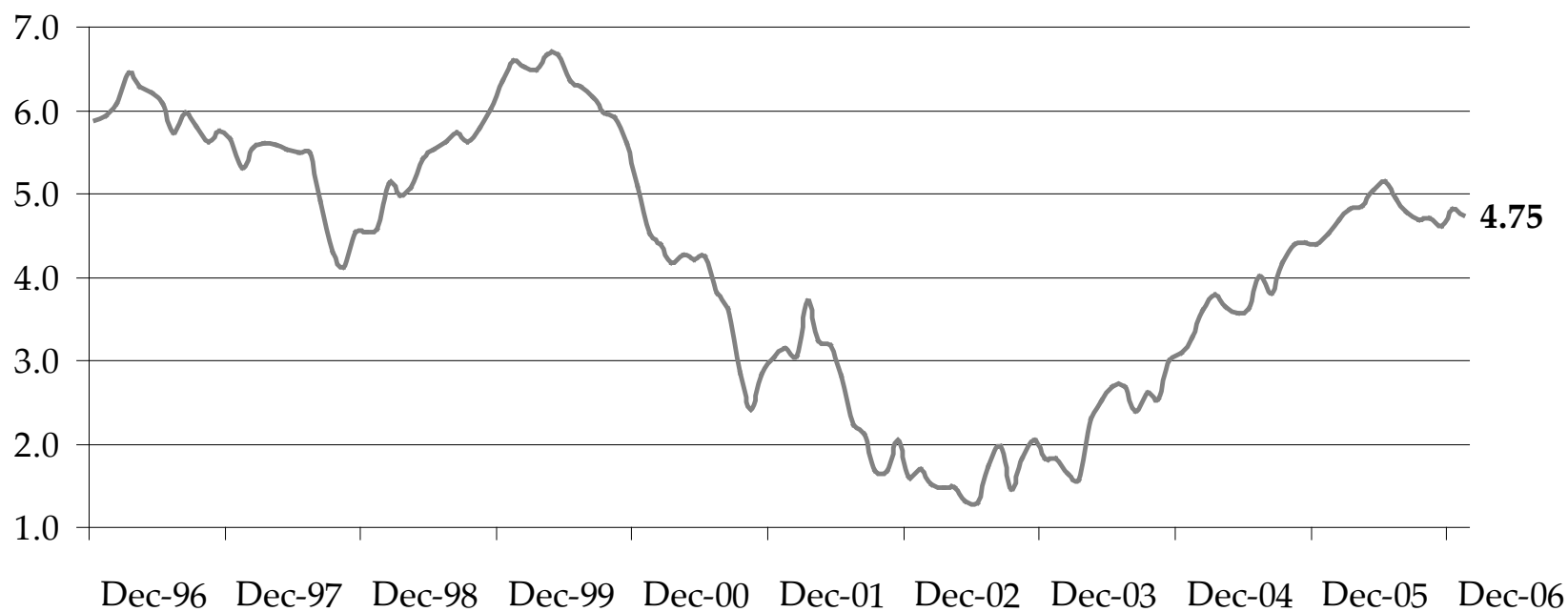
Fixed Income – Lehman Quality Indices (Total Return)

Lower quality bonds outperformed in 2006





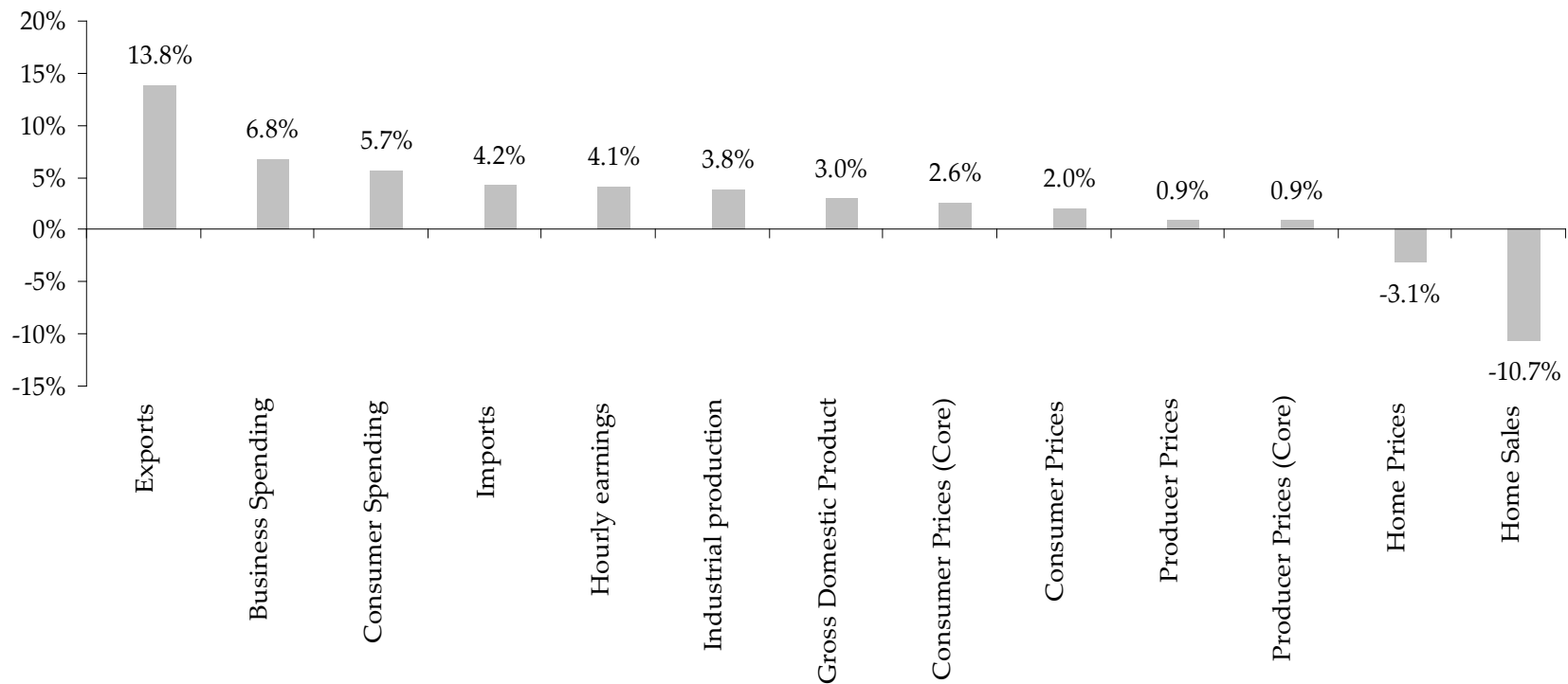
2-Year Treasury Note





Economic Data*

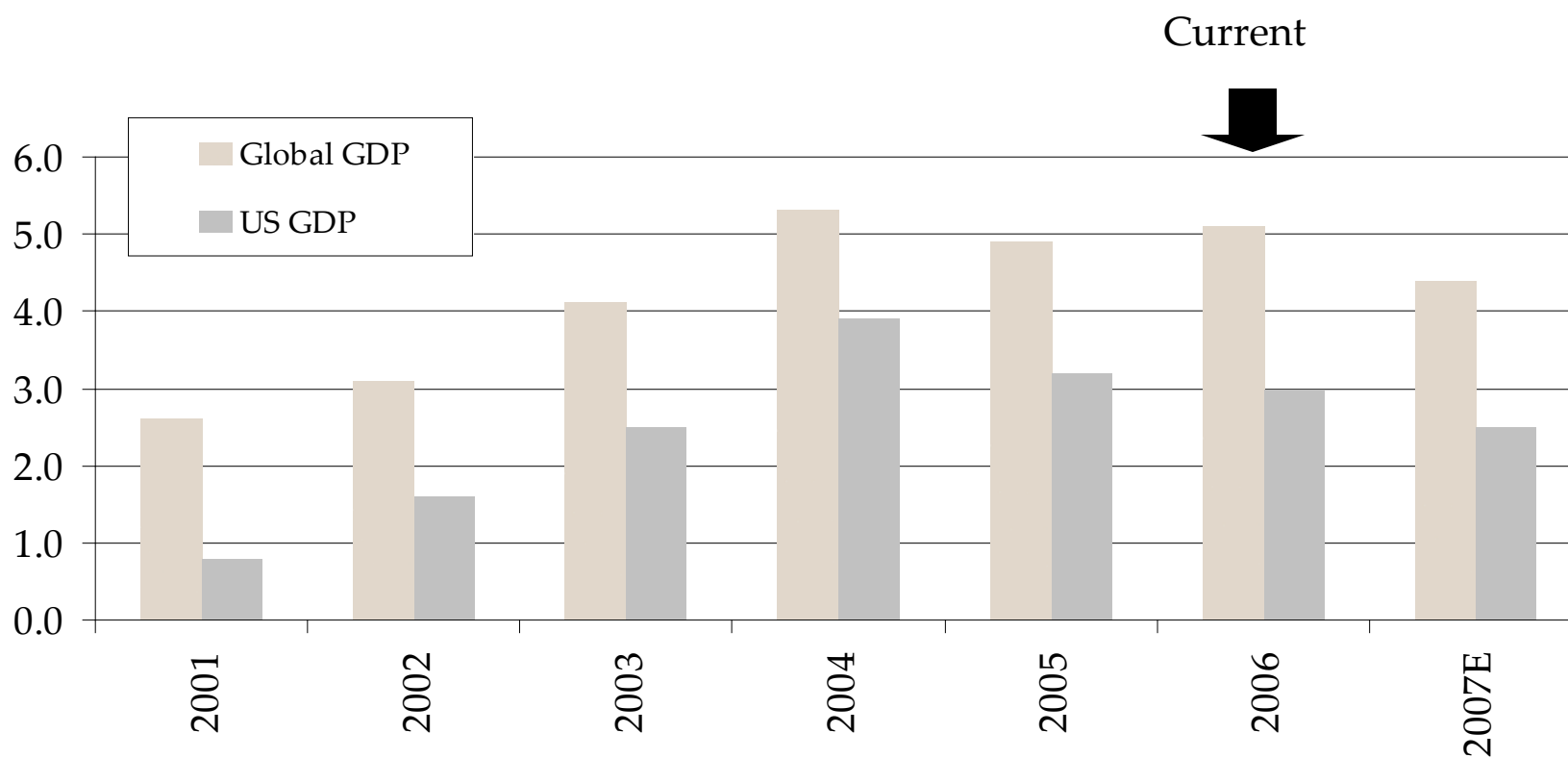
Exports & Business Spending were key drivers in 2006, housing plummets



*12 month rate of change is based on data up to November, 2006.

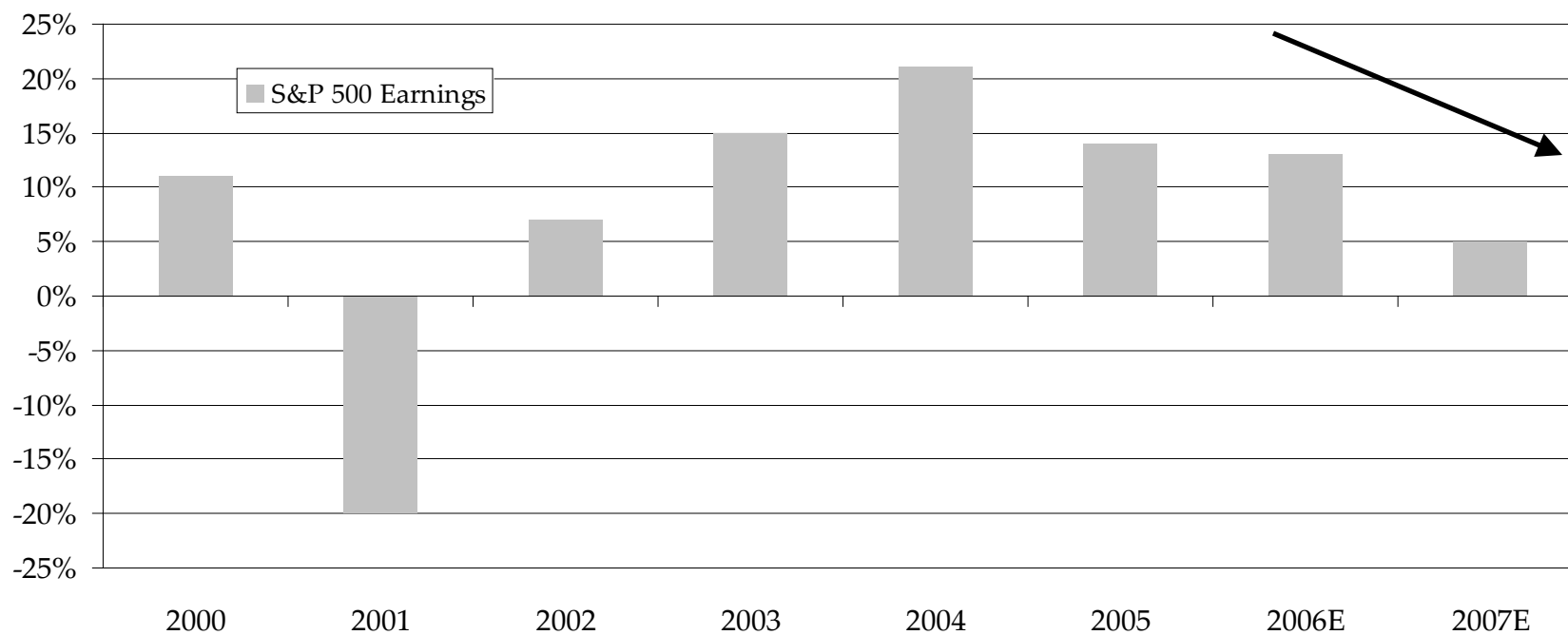


Global Growth





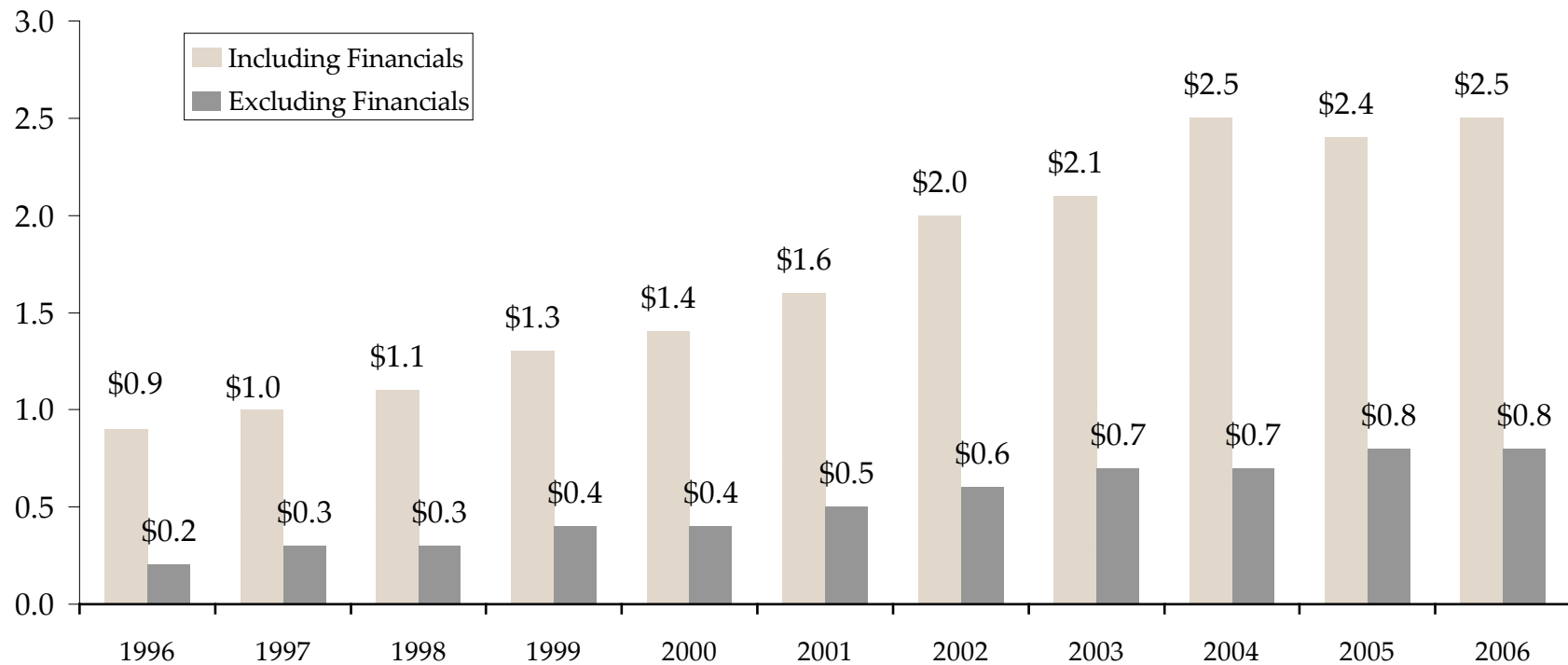
Expect S&P 500 earnings to slow in 2007



*12 month rate of change is based on data up to November, 2006.



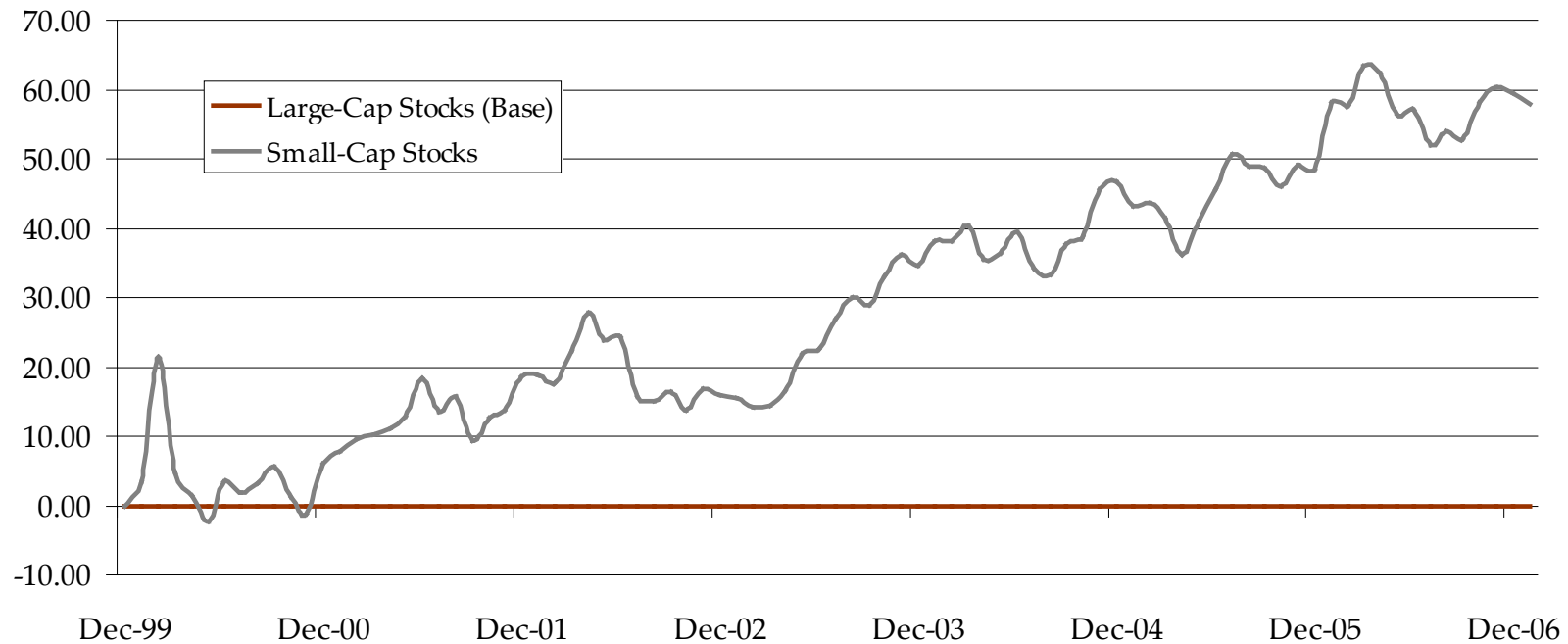
Cash levels remain elevated



*12 month rate of change is based on data up to November, 2006.



Equities: Small-Caps have outperformed Large Cap



*12 month rate of change is based on data up to November, 2006.



Outlook: Large-Cap poised to outperform Small-Caps

- In a slowing economy, large-caps should outperform small-caps.
- Large-caps generate a greater percent of sales from outside the US than small-caps. Large-caps should benefit as international GDP growth exceeds US growth.
- Large-caps offer better relative value vs. small-caps, based on various measures.

	S&P 500	Russell 2000
Growth		
Sales Growth	5.5%	7.8%
Profit Margins	8.6%	3.9%
Earnings Growth	9.1%	20.6%
International Exposure		
Sales outside of the US	36%	16%
Valuation		
P/E	16.5	21.7
PEG Ratio	1.3	1.8



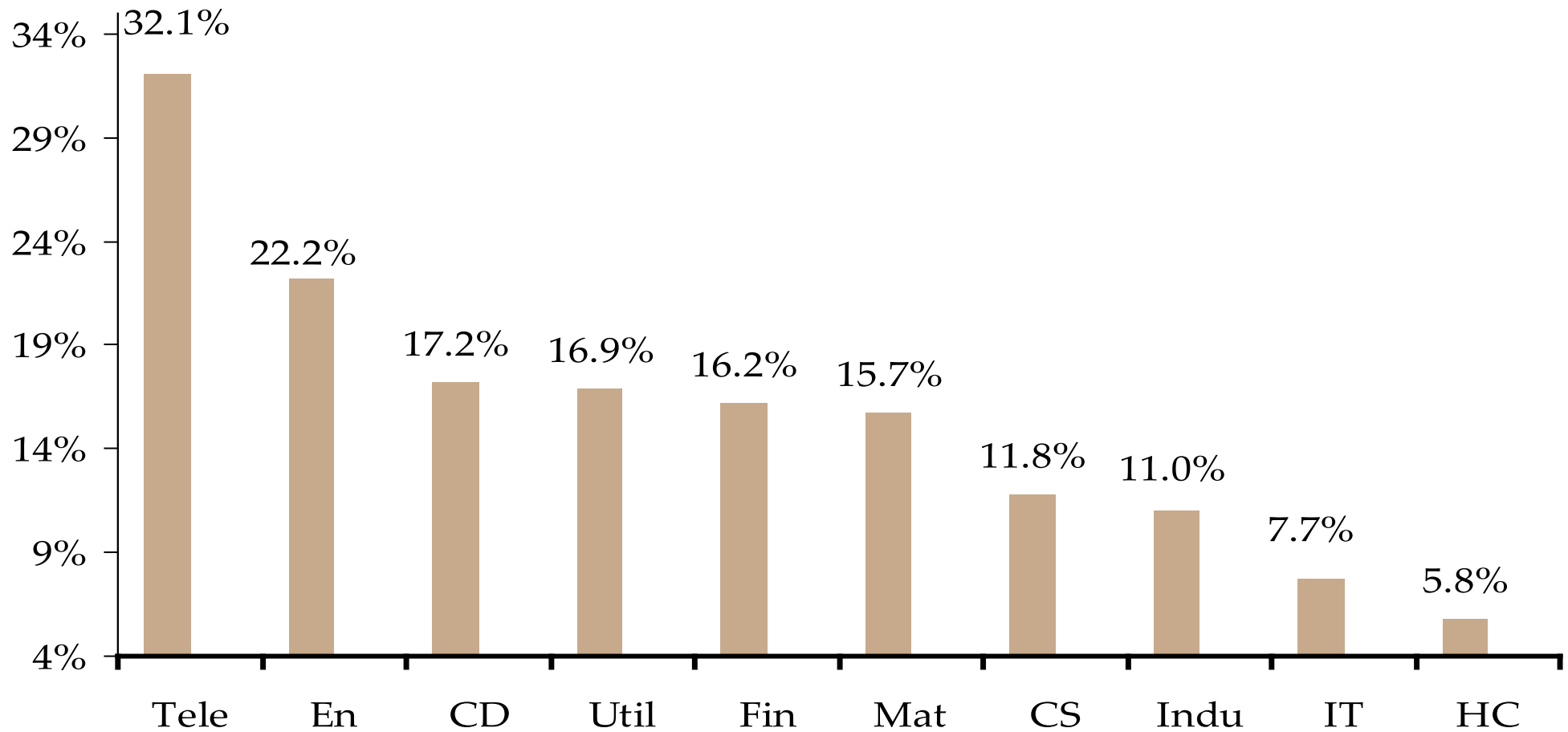
Outlook: Growth Stocks expected to outperform Value Stocks

- True to its name, the S&P 500 Growth Index is expected have faster growth based on sales growth, earnings growth, profit margin, and change in profit margin

Growth Metrics				
	Sales Growth	Earnings Growth	Profit Margin	Change in Margin
Growth	6.5%	11.2%	10.9%	48bp
Value	4.7%	7.5%	6.7%	20bp

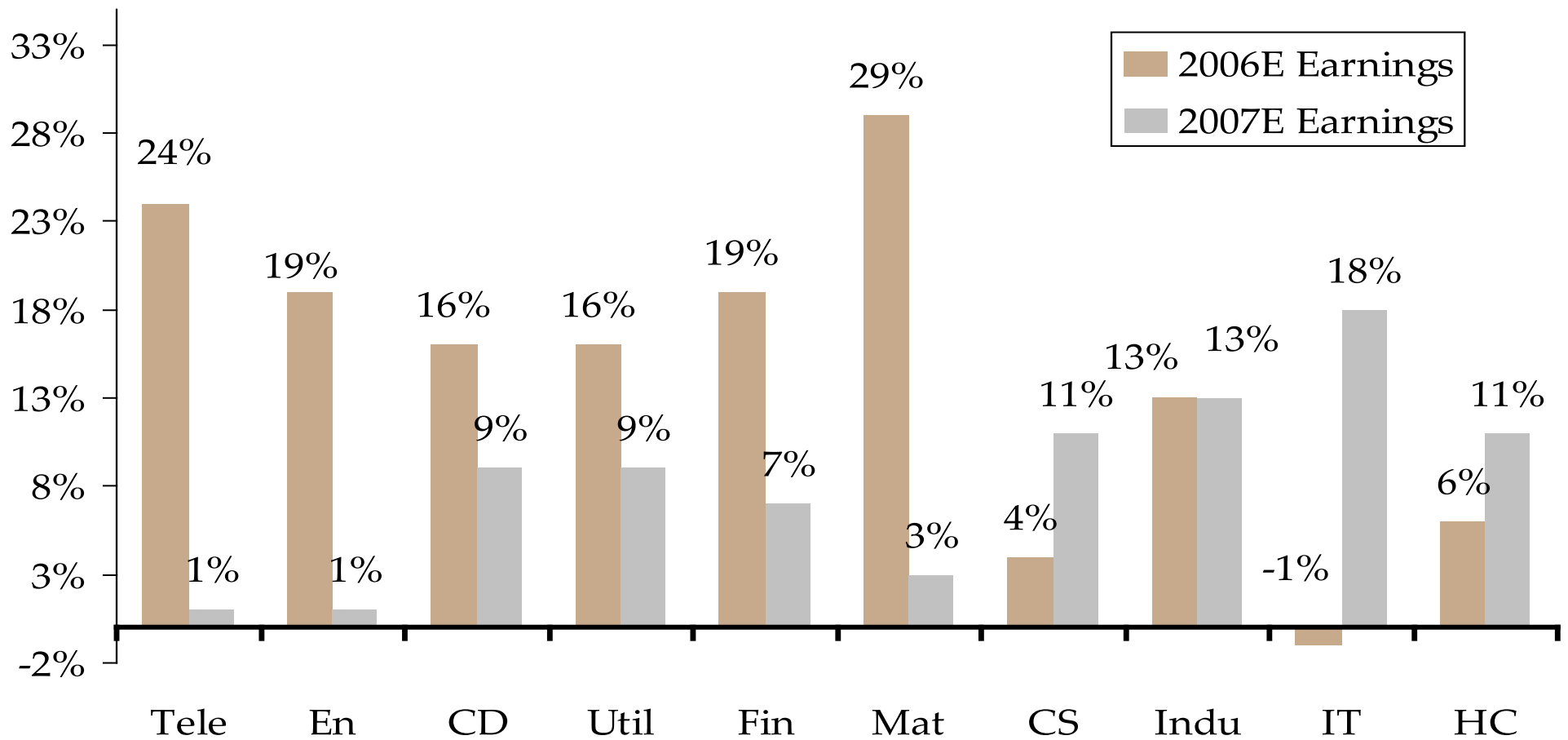


2006 Sector Returns





2006 Sector Earnings Growth





Sector Outlook

Sectors we prefer: Consumer Staples, Industrials, and Technology;
These sectors should benefit from sustained global economic expansion and accelerated earnings growth in 2007.

Sectors we are de-emphasizing: Consumer discretionary, Financials, and Telecom. While international exposure will likely support revenue growth, decelerating earnings growth likely means that price performance in 2007 will lag price performance of the broader market.



Concluding Thoughts for 2007 & Beyond

- *U.S. Budget Deficit may worsen*
- *Energy price declines have helped in recent weeks*
- *No pressure on Federal Reserve to move rates at all*
- *Significant housing slowdown looks to be orderly*
- *Foreign growth continues to outpace U.S.
1st time since early 1970s 5 years of outperformance*
- *Riding the Global Liquidity Wave*



Questions

