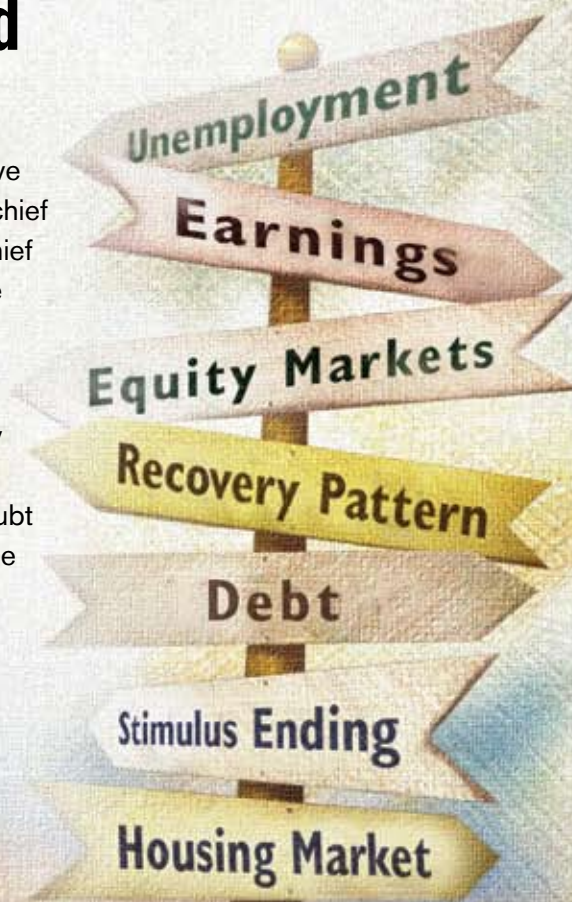


What's driving the markets?

See what's behind the current market and what to watch ahead

To help in your investment discussions with clients, we asked Enrique Chang, executive vice president and chief investment officer and Scott Wittman, CFA, CAIA, chief investment officer of asset allocation and quantitative equity, for their views on the key factors that will be affecting the markets for the rest of the year.

If we had to use a single word to summarize our view on the current state of financial markets, it would be **uncertainty**. From where we stand, there is little doubt that we are on a path to economic recovery, but at the same time, economic and financial signals remained mixed, and in some cases, seemingly at odds with each other. There will likely be some bumps and surprises before we can completely put the Great Recession behind us.



Where we are today— mixed signals

Since November 2009, there has been some welcome news for the financial markets. Driving this news are reports of significant indicators on how our economy is faring.

- U.S. unemployment remained steady at 9.7% for the first three months of 2010 since peaking at 10.1%.
- First quarter corporate earnings and earnings growth, especially in the technology and consumer durables sectors, as well as labor productivity growth, were all impressive.
- Retail sales—beginning with the 2009 holiday shopping season—have been encouraging.
- Most equity markets were up 40% versus the worst of the Great Recession's bottom in early March 2009.

Despite the positive sentiment this news has created, the overall economic outlook remains mixed. Although March's unemployment was unchanged at 9.7%, certainly a welcomed development, we still have close to 10% unemployment. And very few expect the rate to decline below 9% by the end of this year.

Governments had to borrow money and spend in response to the financial crisis in 2008 and 2009. Now we've reached a point where the fiscal consequences of this much deficit spending (debts) can't

be ignored. As some of this massive stimulus winds down, we may soon find out how strong or weak the economy is on its own. Consumers will pick up part of the slack, but not like in past recoveries where household indebtedness was much lower and unemployment dropped substantially as the recovery unfolded.

What to watch—markets and indicators

The next two charts—one covering the market and one showing leading indicator trends—are examples of broad gauges to monitor as economic news unfolds during the year.

Market performance

The chart on page 4 shows the quarterly return performance of three major stock indices on a quarterly basis over the past five quarters. These indices are the S&P 500, the Dow Jones Industrial Average and the MSCI EAFE (Europe, Australia and Far East) Index—which is a major index covering stocks outside the U.S.

Over the past five quarters, we have witnessed three distinct phases. In the first quarter of 2009, the markets were in decline due to the global financial crisis. This was followed by sharp recoveries in all three markets for the second and third quarters of 2009. And for the most recent two quarters (fourth quarter of last year and first quarter this year), we've seen market gains become much weaker and uncertain. Much of this has been due to the odd mixture of

It's not the trends toward recovery that cause concern as much as the strength of these trends. We expect the economic news will continue to be mixed for at least the next quarter.

This information is for educational purpose only and is not intended as investment advice.

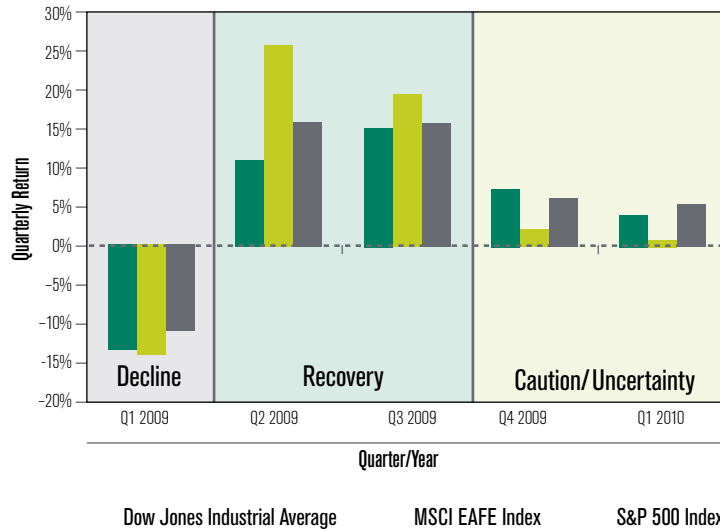
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Continued on page 3



ECONOMIC OUTLOOK REMAINS UNCERTAIN

Quarterly Returns of Major Stock Indices
Q1 2009 to Q1 2010



Source: FactSet

In this type of market, broad-based diversification by asset class, investment style and geography still remains the best strategy to help your clients navigate this mixed environment.

economic news that continues to be released, despite the consensus view that the Great Recession is over.

Indicators

Published by The Conference Board, the index chart on the next page is designed to forecast the overall trend in economic activity (covering several indicators) for six to nine months in the future. You can see the index was zero from December 2007 (marking the official start of the Great Recession) through March 2009. At that point, the month-to-month changes in this index shifted to positive, which is consistent with the start of an economic recovery.

Yet even with this sudden reversal to positive changes, two worrying issues are apparent.

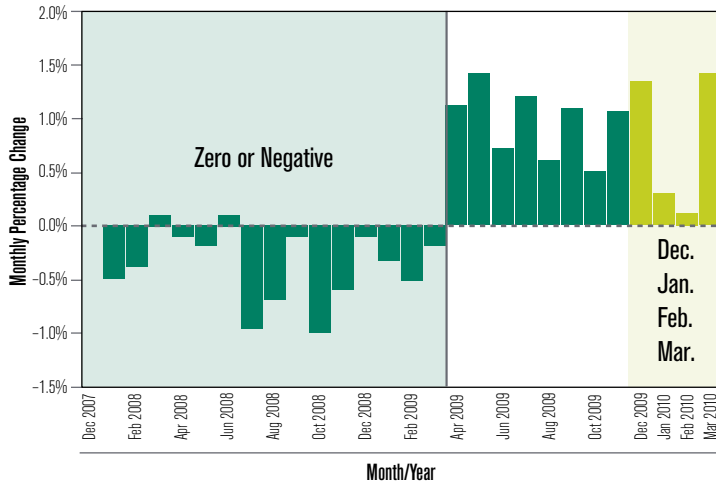
1. Month-over-month changes were not consistently strong. May 2009 was a very strong month, but was followed by a lower (albeit still positive) month.
2. As the latter half of 2009 unfolded, it became clear that the stronger months (May, July, September) and weaker months (June, August, October) were both on a downward trend. February came at close to a 0% increase following a weak increase for January. But March 2010 saw a recovery with a 1.4% increase.

These signs have many economists worried that our economic recovery may not be as strong or long-lasting as past recoveries we have experienced.

Continued on page 4

RECOVERING, BUT CONCERNS REMAIN

Percentage Change in Monthly Index of Leading Economic Indicators
December 2007 to March 2010



Source: The Conference Board

Where are we headed?

As we enter the second quarter we believe both positive trends (such as earnings growth among businesses) and negative factors (such as high unemployment and growing indebtedness among both the federal and state governments) will continue.

It's not the trends toward recovery that cause concern as much as the strength of these trends. We expect the economic news will continue to be mixed for at least the next quarter. We are clearly on a recovery path from the Great Recession. But unlike past recoveries that resembled a definite bounce back to prosperity, the path of this recovery will be longer, slower and include at least a few bumps along the way.

In this type of market, broad-based diversification by asset class, investment style and geography still remains the best strategy to help your clients navigate this mixed environment. Staying flexible and responding to major events as they occur are also key in building the confidence of your clients.

To help you stay in tune with economic news and trends, take advantage of the market insight and perspective from our investment management professionals, such as *Weekly Market Update* emails and quarterly CIO Insights, both available at americancentury.com/ipro. ●



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