Quarterly Review and Outlook

April 2011

EQUITABLE Trust

Trustees and Investment Advisors

This Issue

Stock Market Vulnerable to Scheduled June Ending of Quantitative Easing

The S&P 500 Index continued its winning ways with a first quarter return of 5.4%. The bull market is now more than two years old and has amassed a cumulative price gain of 99% since the March 2009 low. Meanwhile, bonds have struggled, with the 10-Year Treasury returning -0.4% in the first quarter, including price change.

The economy has been showing some encouraging signs. The unemployment rate has declined from a 2009 peak of 10.1% to the recent 8.8%, although there is a great deal of evidence to indicate that this largely reflects discouraged workers no longer being counted as unemployed. However, the most important leading indicator may be the stock market itself, which is still in an uptrend. Corporate profits continued to rebound on improved sales while labor and capital costs have been restrained. Companies which buy raw materials are facing cost pressures from rising commodity prices, hampering earnings growth.

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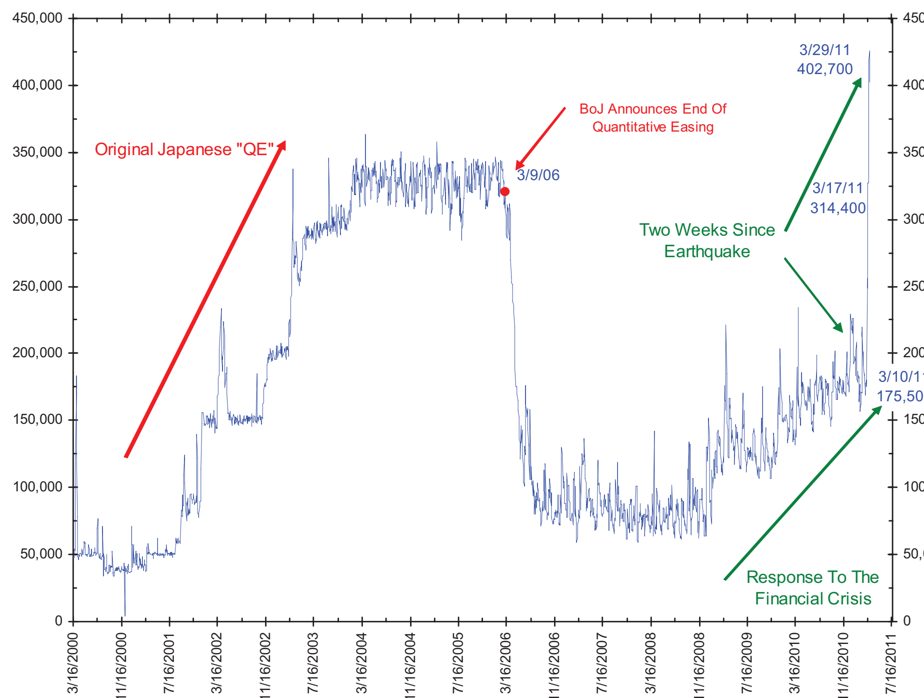
Bank of Japan Current Account Balances - Chart A

Units = 100 Million Yen, 5 Day Moving Average



Source: Bianco Research, L.L.C.

"If you torture the data long enough, it will confess to anything."

— Darrell Huff
How To Live With Statistics

Stock Market Vulnerable ... *(continued)*

It seems to us that a portion of the stock market's return can be attributed to improved economic and corporate performance. The rest is likely a result of buying pressure created by the huge wave of money-printing the Federal Reserve Bank has undertaken. We are concerned about the latter portion; that it is vulnerable to the ending of quantitative easing scheduled for June. The day of reckoning could be advanced to this week if Congress fails to reach a deal to raise the Federal debt limit. Or, the day could be postponed because of additional central bank money printing around the world, as European Central Bank provides liquidity to alleviate the debt crises in Greece, Portugal and Ireland. Also, the Bank of Japan (BoJ) has flooded its market with Yen to relieve the economic distress caused by the recent earthquake and tsunami (see chart A on previous page).

A scenario of continued central bank ease was proposed by Jim Bianco of Bianco Research (3/31/11):

"We adhere to the adage that it is futile to fight the Federal Reserve (and now the G-7). These two groups, combined with the BoJ, have pumped so much liquidity into the markets, it is as if QE3 has started already. Look for risk markets to power higher on this wave of liquidity … This is not a perpetual motion machine. All this liquidity will eventually become a deterrent to the markets if/when inflation becomes problematic. We think that is coming later this year or early next year.

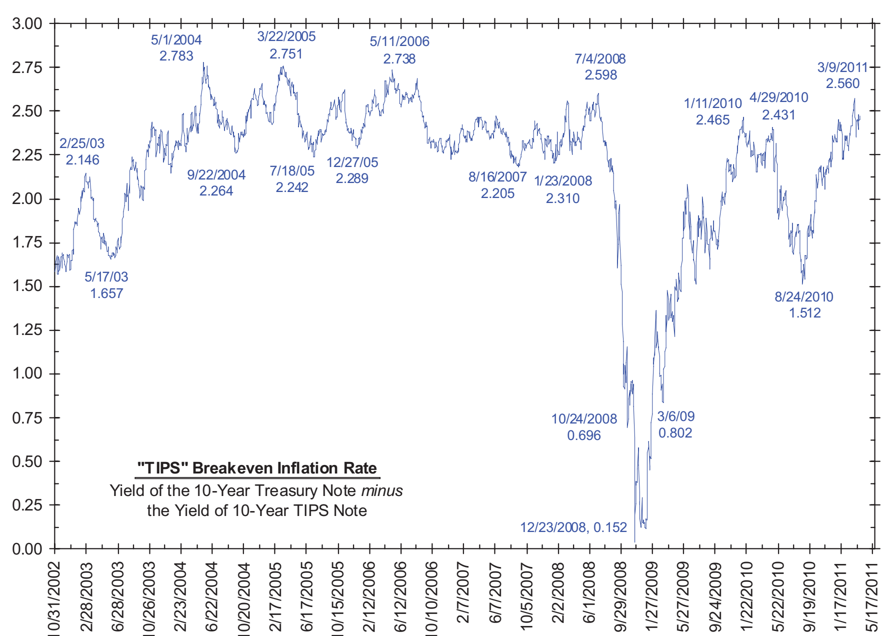
"See chart B. Inflation exceptions as measured by the 10-year TIPS inflation breakeven rates are approaching multi-year highs. We think they will eventually make new highs. Once the market worries about inflation, it will be bad as all risk markets should reverse. Central banks will be unable to remove the liquidity fast enough to quell these concerns.

"Enjoy the world-wide liquidity surge now as there will be a terrible hangover later."

Our outlook for the various asset classes — cash equivalents, fixed income, equities and alternatives — is nearly unchanged since last quarter. On the margin, we have reduced domestic equities in favor of emerging market stocks, and we have reduced domestic investment-grade bonds in favor of emerging market debt in client portfolios. We remain confident that emerging market currencies will perform well compared to the dollar and offer additional return opportunities.

Market Based Inflation Expectations - Chart B

10-Year "TIPS" Breakeven Inflation Rate



Source: Bianco Research, L.L.C.

Market Diary Period Ending March 31, 2011

	CLOSE	RATES OF RETURN				
Equities	**3/31/11**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
U.S. Stock Market (S&P 500)	1325.83	5.92	5.92	15.65	2.35	2.62
U.S. Mid-Cap Stocks (S&P 400 Mid-Cap)	989.05	9.36	9.36	26.95	10.00	6.07
U.S. Small-Cap Stocks (S&P 600 Small-Cap)	446.63	7.71	7.71	25.27	8.36	3.67
International Stocks (MSCI EAFE)	1702.55	2.67	2.67	7.47	-5.83	-1.41
Emerging Markets Stocks (MSCI Emerging Markets)	1170.87	1.69	1.69	15.89	1.96	8.25
Alternatives	**3/31/11**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Gold (London Precious Metal Fix)	1439.00	2.38	2.38	29.00	15.52	19.85
Crude Oil (West Texas Intermediate)	106.72	16.79	16.79	27.41	1.66	9.87
Real Estate (Dow Jones REIT)	185.75	5.26	5.26	18.28	-3.05	4.55
Commodities (Dow Jones UBS Commodity)	492.32	6.94	6.94	40.27	6.65	14.40
	YIELDS					
Fixed Income	**3/31/11**	**12/31/10**	**12/31/10**	**3/31/10**	**3/31/08**	**3/31/06**
U.S. Treasury Bills 91 days	0.09	0.12	0.12	0.16	1.39	4.63
2 Year U.S. Treasury	0.80	0.61	0.61	1.02	1.62	4.82
10 Year U.S. Treasury	3.47	3.30	3.30	3.84	3.45	4.86
Investment Grade Taxable Bonds (Barclay's Aggregate)	3.08	2.97	2.97	3.47	4.51	5.47
10 Year AA Municipal Bonds (Moody's)	3.42	3.93	3.93	3.20	3.85	4.19

Rates of Return for Equities and Alternatives for periods longer than 12 months are annualized. Data provided by Bloomberg L.P., The Chart Store, Interactive Data Corp. and U.S. Treasury Department.

New Federal Estate and Generation-Skipping Tax Exemption May Create Unintended Consequences

If an estate planning attorney could have predicted exactly how an estate plan that was drafted three years ago would apply to a taxable estate today, he probably would also have predicted that Virginia Commonwealth would play Butler in the Final Four this year. For those who are not basketball fans, let’s just say that it is highly unlikely.

We all have recently heard a great deal about the uncertainly, then the changes, in the federal estate tax. One of the practical effects of these changes can result in substantial unintended allocation of assets among beneficiaries of many estate plans. The problem is caused by the fact that even wills that were amended in recent years to account for the difference between the Tennessee Inheritance Tax Exemption and the growing Federal Estate exemption didn’t typically anticipate the $5,000,000 estate and GST tax exemptions in 2011 and 2012 (and we still can’t be sure what will apply after that). Most estate plans that were created by well-informed estate planning attorneys for at least the last 15 or 20 years have included some form of funding formula for a bequest to the client’s family in the amount of the federal estate tax exemption with the balance of the estate flowing into a marital bequest.

(continued on back page)

New Federal Estate ... *(continued)*

Wills may also have included similar provisions to take maximum advantage of the generation-skipping tax exemption.

For example, the intended plan might have been to leave only a part of the estate to a trust for grandchildren with the rest going to children. A decedent with a surviving spouse might have a similar structure for a trust for children with the balance to the spouse. The problem is that the same formula that would have successfully accomplished those objectives under the reasonably anticipated exemption levels at the time the will was drafted (before 2010) might cut out the children or the surviving spouse entirely with today's much higher exemption amounts. That might not be at all what was intended.

The bottom line is that people whose wills or trusts were drawn prior to last year and with any sort of estate or generation-skipping tax planning included should have their plans reviewed to confirm that provisions of wills and associated documents still have the intended effect.

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