

WEEKLY MARKET MONITOR

JUNE 18, 2007

BRETT HAMMOND
CHIEF INVESTMENT
STRATEGIST

LEO KAMP
CHIEF ECONOMIST

DOUGLAS FORE
DIRECTOR OF PORTFOLIO
ANALYTICS

THE MARKETS PERFORM

We've all been reading about recent market performance, as bond prices fell and yields rose last week and stocks were somewhat more volatile than they had been in a while. But how do these impressions match up with reality? How have securities markets behaved overall this year? Today we want to bring you up to date with the market. We want to:

- Compare how major domestic and international market indices performed so far in 2007
- Examine possible reasons behind market behavior

The accompanying table displays the year-to-date performance of some of the leading market indices through June 15. As you can see, the overall news is mixed. Equity markets performed well in 2007, particularly mid-cap, growth and international indices. Fixed-income markets were generally flat to slightly up, and real estate doing well or poorly, depending on whether you define it as a sector or an asset class.



2007 MARKET INDEX PERFORMANCE THROUGH JUNE 15

INDEX	YEAR-TO-DATE TOTAL RETURN (%)
Russell 3000	9.23
S&P 500	9.00
Russell 1000	9.33
Russell 1000 Growth	9.94
Russell 1000 Value	8.72
Russell Mid-Cap	12.16
Russell Mid-Cap Growth	13.11
Russell Mid-Cap Value	11.05
Russell 2000	8.22
Russell 2000 Growth	10.35
Russell 2000 Value	6.28
MS EAFE	10.67
MS World	10.26
Lehman Bros. Aggregate Bond	0.28
Lehman Bros. TIPS	0.57
Lehman Bros. Short-Term Govt Credit	1.38
Lehman Bros. 10-Yr Municipal Bond	-0.44
Merrill Lynch BB/B Cash Payer Issuer Constrained (High Yield)	3.18
I-Money Net (Money Market)	2.60
Dow Jones Real Estate Securities	-1.41
NCREIF (through 3/31/07)	3.62

Source: TIAA-CREF funds index data

Underlying the news are several factors, including good but declining corporate earnings growth, poor first quarter U.S. economic growth (but positive growth expectations and consumer spending), continued good foreign economic growth, rising long-term interest rates and inflation, a poor U.S. housing sector, and an uncertain consumer and investor outlook.

Let's start off with the major equity markets, which continued their robust performance in 2007.

Domestically, after climbing over 10% earlier in the second quarter, the broad-market Russell 3000 Index, which covers large, medium, and small-capitalization stocks, as well as value and growth stocks, settled a bit recently and was up 9.23% as of June 15, 2007. Similarly, the S&P 500 Index of large-cap companies returned exactly 9% for the same time period. Looking at the components of the large-cap domestic equity market, for the first time in several years large-cap growth stocks (per the Russell

1000 Growth Index), on average, beat their large-cap value equivalents by well over 1% (9.94% compared to 8.72%).

Looking at the somewhat smaller end of the domestic market, mid-cap stocks (#201 through #1000 in the Russell 3000 universe) were up 12.16% through June 15. Once again for the first time in a long while, growth outperformed value in the mid-cap area (13.11% compared to 11.05%). The smallest-cap stocks (the Russell 2000 Index) trailed mid-cap and large-cap stocks, rising 8.22% for the same time period. Continuing the pattern we've observed elsewhere, small-cap growth stocks returned 10.35% while the equivalent value index increased 6.28%.

On the international side, after far outpacing U.S. equities for the past couple of years, overall international equity returns were slightly ahead of their U.S. counterparts through June 15. The MS EAFE (Europe, Asia, and the Far East) Index of developed country stocks increased 10.67%

during that time, and the MS World Index (EAFE plus U.S. stocks) rose 10.26%.

Turning to the fixed-income markets, we find that bond markets were essentially flat. Reflecting the rise in interest rates that we've seen since the beginning of 2007, as well as uncertain inflation and economic growth prospects, the broad-market Lehman Bros. Aggregate Bond Index rose 0.28%, and U.S. TIPS (Treasury Inflation Protected Securities) returned 0.57% as of June 15 of this year. Short-term U.S. government notes have done a little better, returning 1.38%, which municipal bonds are in negative territory, down 0.44%. Two of the best fixed-income arenas this year are money market, which returned 2.60% so far this year, and high-yield corporate bonds, where a Merrill Lynch high yield bond index was up 3.18%.

In U.S. real estate, we find a different story, depending on whether we define real estate as a sector or an asset class. If we consider real estate as an equity sector like industrial goods or consumer durables, then a broad sector index of real estate securities (REITS) was down 1.41% as of June 15. REITS include the stocks of companies that develop and/or manage commercial real estate (industrial, retail, office, multi-family) as well as single-family homes. The experience of the REIT index this year was no doubt affected by home ownership market woes and perhaps a small increase in the cost of borrowing. In contrast, we might take the view that real estate is really an asset class separate from the stock market, with its own special or even unique characteristics. For example, the NCREIF commercial real estate index does not include the stocks of real estate companies, but rather actual industrial, retail, office, and multi-family properties themselves (notably excluding single-family homes). This index rose modestly by 3.62% during the first quarter,¹ perhaps reflecting the relatively more healthy condition of commercial real estate right now compared to the single-family area.

So far this year, investors have generally benefited from owning stocks, but haven't been hurt too much by owning bonds. And depending on the form of ownership, real estate has either decreased or increased modestly.

Keep in mind that long-term investors should be broadly diversified with a mix of equities, fixed-income, real estate and guaranteed investments. The appropriate asset allocation can help to smooth out the inevitable ups and downs of the investment ride. **The performance data quoted represents past performance, and is no guarantee of future results. Your returns and the principal value of your investment will fluctuate so that when redeemed, your investment may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted above.**

¹ In contrast to the other indices cited in this report, which are reported daily, the NCREIF (National Council of Real Estate Investment Fiduciaries) Index is available quarterly.

The index information presented here is designed to show a broad representation of various securities and asset classes. You cannot invest directly in an index.

Market Monitor is prepared by TIAA-CREF Asset Management and represents the views of TIAA-CREF's Investment Strategy and Client Solutions Group. These views may change in response to changing economic and market conditions. Past performance is not indicative of future results. The material is for informational purposes only and should not be regarded as a recommendation or an offer to buy or sell any product or service to which this information may relate.

TIAA -CREF is a national financial services organization and the leading provider of retirement services in the academic, research, medical and cultural fields with over \$400 billion in combined assets under management (3/31/07). Further information can be found at www.tiaa-cref.org. TIAA -CREF Asset Management is a division of Teachers Advisors, Inc., a registered investment advisor and wholly owned subsidiary of Teachers Insurance and Annuity Association (TIAA). TIAA-CREF® personnel in its investment management area provide investment advice and portfolio management services through the following entities: Teachers Advisors, Inc., TIAA-CREF Investment Management, LLC, and Teachers Insurance and Annuity Association® (TIAA®). TIAA-CREF Individual & Institutional Services, LLC, distributes securities, member NASD/SIPC. TIAA, TIAA-CREF, Teachers Insurance and Annuity Association, TIAA-CREF Asset Management and FINANCIAL SERVICES FOR THE GREATER GOOD are registered trademarks of Teachers Insurance and Annuity Association.

Brett Hammond, Leo Kamp and Douglas Fore are available to comment on economic data. If you wish to speak with them, please contact Chad Peterson, Media Relations, 212-916-4808 or email cpeterson@tiaa-cref.org.

Benchmark Disclosures:

The Russell 1000, 2000 and 3000 indexes are registered trademarks of the Frank Russell Company. Our accounts are not promoted or sponsored by or affiliated with Frank Russell Company.

The Lehman Brothers Aggregate Bond Index is an unmanaged index. Lehman Brothers is a trademark of Lehman Brothers, Inc.

The Morgan Stanley Capital International Europe, Australasian, Far East (EAFE) Index is an unmanaged index. As of 3/31/2003, the index contained 1,000 stocks in 21 developed countries excluding the United States. EAFE is a trademark of Morgan Stanley Capital International, Inc. You cannot invest in the index. The iMoneyNet Money Fund Report Averages – All Taxable is an unmanaged index.

Standard & Poor's 500 Index and S&P are registered trademarks. The S&P 500 Index is an unmanaged index of 500 stocks. S&P 500 is a trademark of The McGraw-Hill Companies, Inc.

The Merrill Lynch BB/B Cash Pay Index is an unmanaged index. The index includes securities that are rated either BB or B on a composite basis by Moody's and Standard & Poor's and are U.S. dollars cash-pay securities.

The Lehman Brothers 10-Year Municipal Bond Index is an unmanaged index. Lehman Brothers is a trademark of Lehman Brothers, Inc.

The Lehman Brothers Mutual Fund Short (1-5 Year) Government/Credit Index is an unmanaged index. Lehman Brothers is a trademark of Lehman Brothers, Inc.

The Lehman Brothers U.S. Aggregate Index measures the performance of the U.S. investment-grade, fixed-rate bond market.

The Lehman Brothers U.S. TIPS Index measures the performance of fixed-income securities with fixed-rate coupon payments that adjust for inflation as measured by the Consumer Price Index for All Urban Consumers.

The Dow Jones Wilshire Real Estate Securities Index measures the performance of publicly traded real estate securities. You cannot invest directly in this index.

Lipper is a trademark of Reuters, SA and provides data and analysis on Mutual Funds and Variable Annuities.

© 2006 and prior years, Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF, New York, NY 10017) C38989