

Forward Institutional

FORWARD MARKETS: *AN ECONOMIC REVIEW*

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All data shown in this document is the most current available as of 7/31/10.

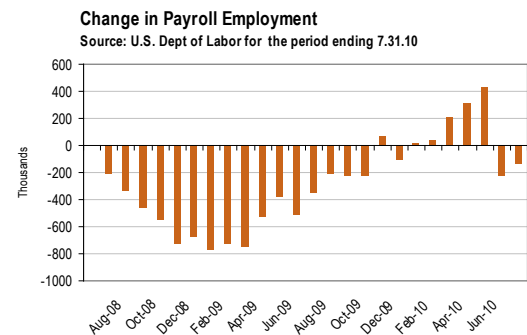
Unemployment Reports Challenge Investor Conviction

The U.S. Bureau of Labor Statistics reported that total nonfarm payroll employment declined by 131,000 in July, and that the unemployment rate remained unchanged at 9.5%. In addition, Federal government employment fell, as 143,000 temporary census workers completed their assignments.

Continued high unemployment numbers have fueled skepticism and fears about the prospect of recovery, and news regarding the broad unemployment index has supported these concerns. At 16.5%, the broad unemployment index indicates far greater weakness than the reported unemployment rate.

Unlike the reported unemployment rate, the broad unemployment number includes 1.2 million “discouraged workers”—those who have given up looking for work and have effectively dropped out of the labor force. The number of discouraged workers has increased by 389,000 since last year, and could indicate worsening conditions.

However, when comparing the current recession to the recessions of 1990 and 2000, employment recovery has lagged increases in GDP. In fact, unemployment attributed to the 2000 recession (which officially ended at the end of 2001) continued to rise for another year. Since the official end of the current recession has not yet been declared by the National Bureau of Economic Research, it is difficult to speculate as to when employment might follow suit. Weakness in employment growth should therefore not be a surprise at this point in the recovery.

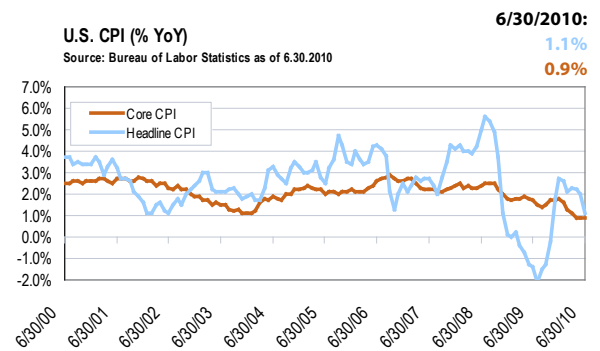
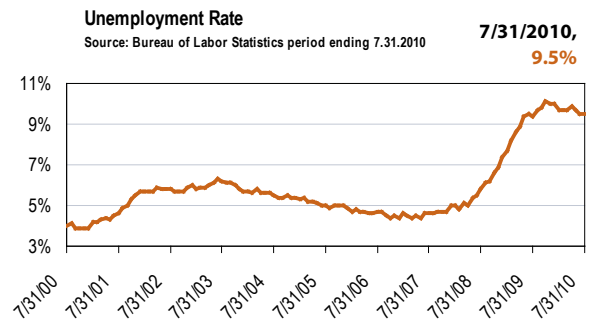
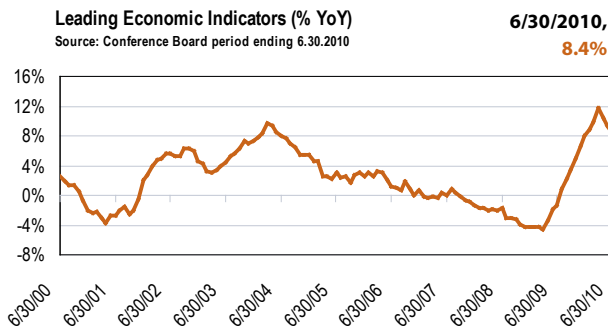


The Economy – U.S.

In June, the Leading Economic Indicators Index was up 8.4% year-over-year—a slight decline from the previous month's reading of 9.3%. Five of the 10 indicators were positive and despite the lower year-over-year growth readings, the indicator is still consistent with solid future growth. As discussed above, unemployment fell to 9.5% in July, ending slightly ahead of forecasts which called for 9.6% unemployment.

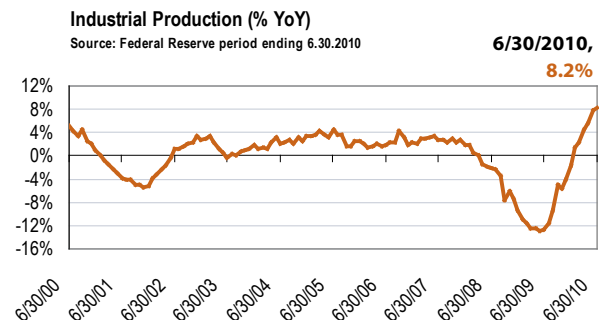
Core inflation held steady at 0.9% in June, in line with the lowest core inflation reading since January 1966. This uncomfortably low inflation rate will likely prevent the Federal Reserve from raising rates in the near future.

Headline inflation fell to 1.1% from 2.2% in April. The Federal Reserve continues to monitor the situation and has indicated a willingness to act against deflationary pressures should the economy weaken further.

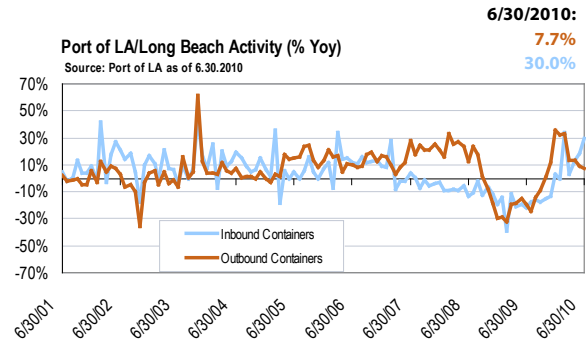
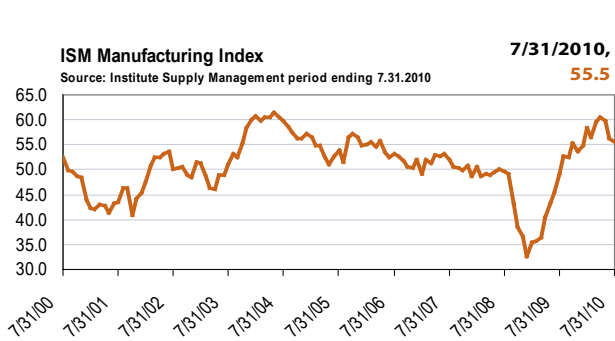


Manufacturing/Trade

Industrial production rose 8.2% over a year ago as of June 30, the highest reading since January 1998. The index was helped by strong readings in utility output and mining. The ISM Manufacturing Index declined by 0.7 points to 55.5, but was ahead of forecasts. Despite the decline, the reading is consistent with 4.5% annualized GDP growth. Overall, the index saw gains in 10 out of 18 industry groups.



Trade has diverged over the last few months. Growth in exports has slowed and growth in imports has accelerated, leading to renewed expansion in the trade deficit in spite of the recent decline of the U.S. dollar. Although the trade deficit largely corrected during the recession, it appears to be reverting to an unbalanced state.

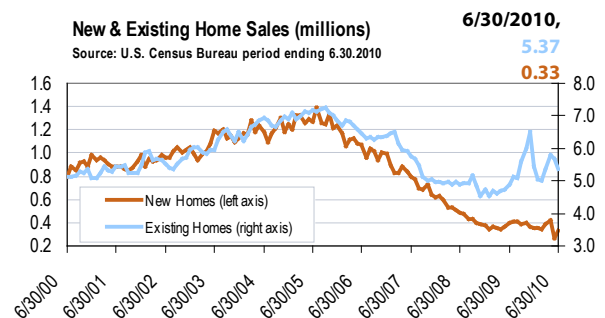
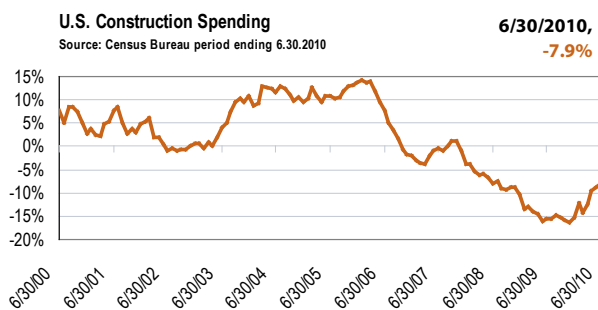
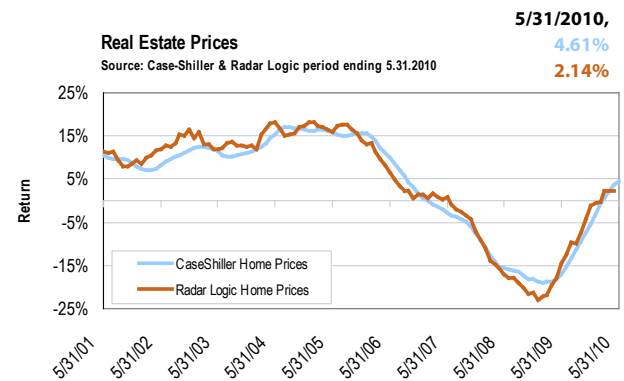


Real Estate

Construction spending has risen steadily off 2009 lows. Nevertheless, nominal spending is still declining year-over-year, and was down 7.9% in June. Any resumption of construction spending would offer a boost to economic growth as well as a sign that real estate may be turning positive.

New home sales are hovering just above record lows, and existing home sales have held steady over the last few months despite the loss of the tax credit.

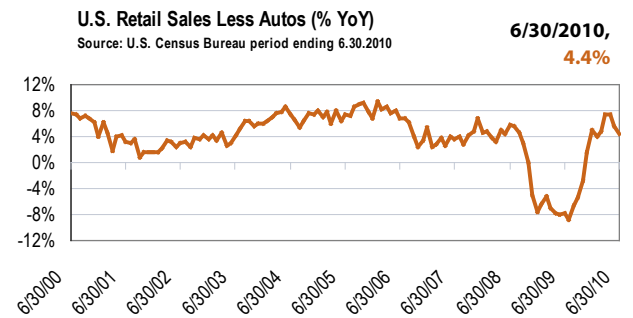
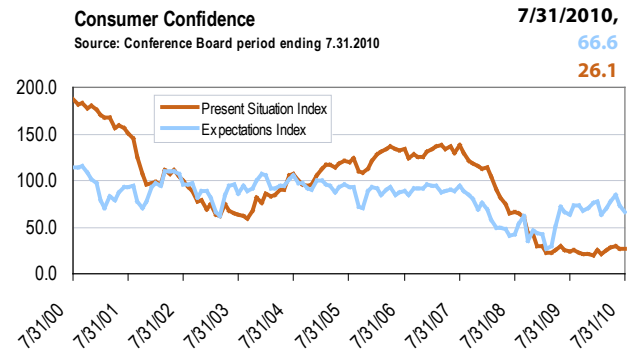
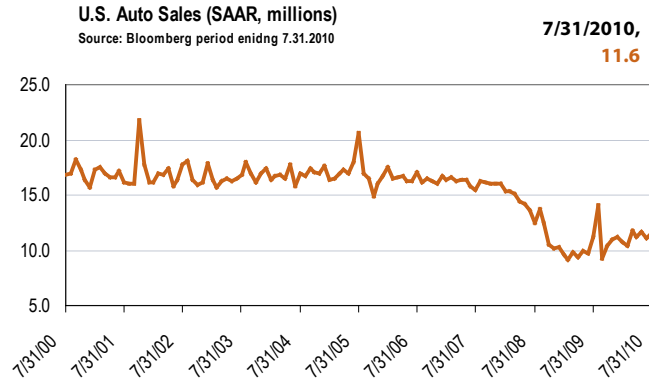
Both major real estate price indexes are showing positive readings. The Case-Shiller Home Price Index was up 4.6% over a year ago in May and the Radar Logics Home Price Index was up 2.1%. Historically, the summer months have been the strongest in the real estate sector. However, it remains to be seen if the same will hold true in 2010 following the expiration of the new home buyer tax credit.



Consumer

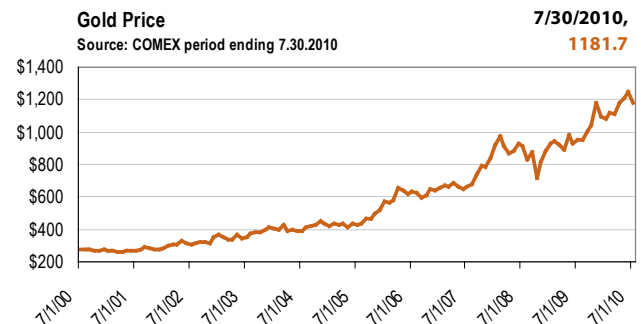
Auto sales came in at 11.6 million units on an annualized basis—well above the recession lows—and most major car companies are reporting profits. Consumer confidence fell in July, led by a drop in consumer expectations. All three components of the expectations index—business, income and jobs—fell in July. Retail sales excluding autos rose 4.4% over a year ago as of June 30, but the rate of growth has slowed. Retail sales peaked in April at 7.5% and have subsequently declined for the past two months. Consumption is the largest component of U.S. GDP and retail spending can be a good proxy for this component.

In order for the recovery to continue, retail spending will need to remain positive.

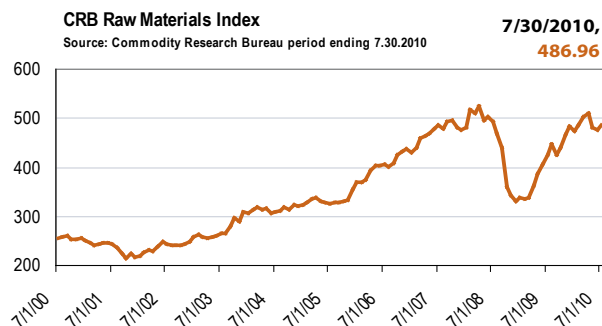
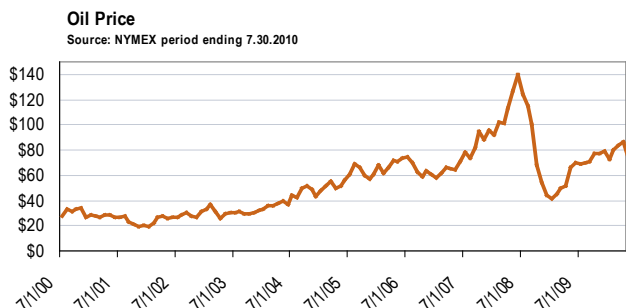


Commodities

Gold and oil prices diverged in July, with oil prices moving up 4.4% and gold falling 5.1%. Gold prices likely weakened as investors who had purchased gold in the midst of the euro crisis unwound their positions. The euro is 11% above the lows reached in May, and investors appear to have regained confidence in the euro. Despite signs of weakness in spending and housing, manufacturing has



generally been improving. This may partially explain the why the CRB Raw Materials Index, which gauges raw material usage at the beginning stages of the manufacturing process, rose in July.



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Definitions:

Gross domestic product (GDP) is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports. The GDP of a country is one of the ways of measuring the size of its economy.

The S&P 500 Index is a capitalization-weighted index of 500 stocks traded on the NYSE, AMEX and OTC exchanges, and is comprised of industrial, financial, transportation and utility companies.

The VIX (the ticker symbol for the Chicago Board Options Exchange Volatility) Index is a popular measure of the implied volatility of S&P 500 index options. A high value corresponds to a more volatile market and, therefore, more costly options, which can be used to defray risk from volatility. Often referred to as the fear index, it represents one measure of the market's expectation of volatility over the next 30-day period.

The Conference Board Consumer Confidence expectations Index is an average of responses to the following questions: 1. Respondents expectations regarding business conditions six months hence. 2. Respondents expectations regarding employment conditions six months hence. 3. Respondents expectations regarding their total family income six months hence.

The Conference Board Consumer Confidence Present Situation Index is an average of responses to the following questions: 1. Respondents appraisal of current business conditions. 2. Respondents appraisal of the current employment conditions.

The Institute of Supply Management (ISM) Manufacturing Index is a monthly index that tracks the amount of manufacturing activity that occurred in the previous month. This data is considered a very important and trusted economic measure. If the index has a value below 50, due to a decrease in activity, it tends to indicate an economic recession, especially if the trend continues over several months. A value substantially above 50 likely indicates a time of economic growth. The values for the index can be between 0 and 100.

The US Unemployment Rate Index measures the US unemployment rate on a monthly basis. The unemployment rate represents the number unemployed persons as a percent of the labor force.

The Industrial Production Index measures real output and is expressed as a percentage of real output in a base year, currently 2002. The production indexes are computed as Fisher indexes since 1972; the weights are based on annual estimates of value added.

The Leading Economic Indicators Index measures average weekly hours, manufacturing, average weekly initial jobless claims, manufacturers' new orders, consumer, vendor performance, slower deliveries, manufacturers' new orders, capital, building permits, new private housing units, stock prices, 500 common stocks, money supply, interest rate spread, and index of consumer expectations.

The US Auto Sales - SAAR Index is seasonally adjusted annual sales of total light vehicles sold in U.S., in millions. Total sales are broken down by cars and light trucks that are manufactured in U.S., Mexico and Canada (Domestic), and those manufactured elsewhere (Imported).

The US Retail Sales, less autos Index measures adjusted retail sales, ex-autos, yearly percentage change. Adjusted for seasonal variation, for holiday and trading day differences, but not for price changes.

The US Existing Home Sales Index measures US Existing homes sold in a one month period. Total includes single-family homes, townhomes, condominiums and co-ops.

The US New Home Sales Index: As per the U.S. Commerce Departments Bureau of the Census, Median Sales for New One-Family Houses in dollars. As per the U.S. Commerce Departments Bureau of the Census, Average Sales for New One-Family Houses in dollars. Provides these totals broken into regions Northeast, Midwest, South and West.

The S&P/Case-Shiller National U.S. Home Price Index is a quarterly composite of single-family home price indexes for the nine U.S. Census divisions.

The Radar Logix Home Price Index includes 1-, 7- and 28-day measures of actual prices paid for U.S. residential real estate in 25 U.S. Metropolitan Statistical Areas (MSAs) as well as a composite.

The US Dollar Index indicates the general international value of the USD. The USDIX does this by averaging the exchange rates between the USD and 6 major world currencies. The ICE US computes this by using the rates supplied by some 500 banks.

The US Construction Spending Index measures the value of new construction put in place in the US, adjusted at annual rates.

Consumer Price Index (CPI) is an index number measuring the average price of consumer goods and services purchased by households. The percent change in the CPI is a measure of inflation.

Crude Oil is the world's most actively traded commodity, and the NYMEX Division light, sweet crude oil futures contract is the world's most liquid forum for crude oil trading, as well as the world's largest-volume futures contract trading on a physical commodity.

Gold: Troy ounces of refined gold, not less than .995 fineness, cast either in one bar or in three 1-kg. bars, and bearing a serial number and identifying stamp of a refiner approved and listed by the Exchange.

The CRB Raw Materials Index is a measure of price movements of 22 sensitive basic commodities whose markets are presumed to be among the first to be influenced by changes in economic conditions.

The Port of Long Beach monthly inbound containers: Tracked in TEUs (Twenty foot equivalent units, a standardized maritime industry measurement used when counting cargo containers of varying lengths. The Port of Long Beach monthly outbound containers: Tracked in TEUs (Twenty foot equivalent units, a standardized maritime industry measurement used when counting cargo containers of varying lengths.

The Port of Los Angeles monthly inbound containers: Tracked in TEUs (Twenty foot equivalent units, a standardized maritime industry measurement used when counting cargo containers of varying lengths. The Port of Los Angeles monthly outbound containers: Tracked in TEUs (Twenty foot equivalent units, a standardized maritime industry measurement used when counting cargo containers of varying lengths.

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