

## **April 2010 Market Recap**

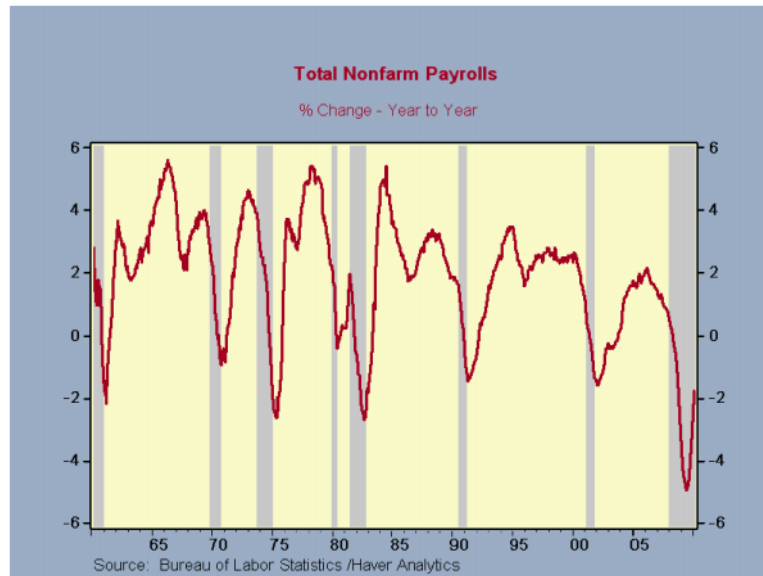
*Presented by Sean Gross*

### **Markets continued their advance**

- In 12 of the 13 months since bottoming in March 2009, the U.S. stock market has advanced.
  - In April, the S&P 500 Index gained 1.58 percent.
  - The Dow Jones Industrial Average rose 1.53 percent.
  - Year-to-date, the indices are up 7.05 percent and 6.42 percent, respectively.
- International markets have disappointed year-to-date.
  - Hurt by the Greek debt situation and the strength of the U.S. dollar, the MSCI EAFE Index lost 1.81 percent in April and is down 0.96 percent year-to-date.
- Fixed income markets moved higher, posting solid gains.
  - The Barclays Capital Aggregate Bond Index gained 1.04 percent in April and is up 2.84 percent year-to-date.
  - Interest rates eased; the 10-year Treasury moved down to 3.66 percent at month-end, bolstering Treasury prices.
  - Corporate and high-yield bonds held up well, but most gains here have been realized.

### **The economy has improved: what's next?**

- The U.S. economy grew at an annual rate of 3.2 percent in the first quarter, after 5.6-percent growth in fourth-quarter 2009.
  - The decline was due to reduced government spending.
  - Personal consumption expenditures, up 3.6 percent in April, helped fuel growth.
    - The Consumer Confidence Index, at 57.9, rose sharply from the 52.2 March level.
  - An increase in imports detracted from growth.
- The unemployment rate is expected to remain at 9.7 percent for April.
  - The April nonfarm payrolls report may show 189,000 new jobs, though some are temporary jobs for the decennial census.
  - The unemployment rate must decline in order for the consumer to help sustain growth.
  - The effects of government stimulus will begin to unwind during the second half of 2010.



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- We are not out of the woods in terms of housing.
  - Housing played a large role in this recession; it is critical to see the housing market stabilize to support future growth.
  - Home sales have declined for three of the last four months.
  - There has been a slight decline in home prices recently.

### A significant debt downgrade

- Greece's debt woes intensified, with Standard & Poor's lowering Greek debt to below investment grade—junk bond status—and investors worrying that the country would default on outstanding debt.
  - At month-end, it looked as if the European Central Bank (ECB) would accept Greek bonds as collateral against ensuing loans, paving the way for a coordinated loan package led by Germany.
  - Analysts believe that Greece may need to restructure its debt despite the assistance.
  - Along with Greece, Portugal and Spain debt was downgraded.
- Eurozone credit woes could have widespread implications for financial markets.
  - Global equity markets have seen sell-offs on Greek news.
  - A demand for U.S. Treasury bonds has increased on a flight-to-quality trade.
  - European banks, owning a considerable amount of the troubled debt, will likely feel the pressure of the dramatic drop in pricing.
    - Because Greek bonds have been downgraded to junk, some investors can no longer hold the debt.
  - Many Europeans have been reluctant to bail out entities that have been imprudent in managing their financial affairs.

## Equity markets fueled recently by strong earnings

- Equity markets continued to confound pundits by pushing higher, but renewed volatility in April's last week of trading reminded investors that markets can go lower.
  - We have seen several large moves to the downside recently.
- Earnings remained a strong catalyst for markets.
  - Most companies beat analyst estimates, helping markets quickly recover from sell-offs.
  - Industry estimates of \$75 per share on the S&P 500 could be increased to around \$80 for the year, signaling confidence in earnings strength for the remainder of 2010.
- **Will markets continue to shrug off mixed global economic data and strengthen on strong earnings?**
  - The last week in April was a test, showing that markets could move lower after a long upward trend.
  - The serious test will come in the second half of the year, when the impact of the stimulus begins to wane.
  - We will find out whether the economy and the markets are ready to stand on their own two feet and deserve the higher valuations we have seen in recent trading.

***Disclosure:** Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. All indices are unmanaged and investors cannot invest directly into an index. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The Barclays Capital Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Barclays Capital government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.*

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Authored by Simon Heslop, CFA<sup>®</sup>, director of asset management, at Commonwealth Financial Network.