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Weekly Market Wrap April 12, 2010

Review - Week Ending 04/09/2010

Stocks rose again last week as much better than expected retail sales fueled investor optimism. This week brings the initial 1st quarter earnings reports, leading off with Alcoa on Monday and closing with General Electric on Friday. Inflation data and the Fed Beige Book will be the key economic data of the week.

Commentary/Highlights

- **Dow breaks 11,000 level**-briefly last week, the 1st time the blue chip index has been at that level in 18 months. Volatility in the stock market is at its lowest level since October 2007.
- **Treasury Bond Yields-Which Direction Are They Headed?** Wall Street cannot agree. The two largest investment banks, Morgan Stanley and Goldman Sachs have differing views on where 10-year treasury yields will be in the next year (currently at 3.85%). Morgan Stanley expects heavy issuance to drive yields as high as 5.50%, while Goldman Sachs expects yields to fall to as low as 3.25%. The two largest government bond managers are also taking diverging stances. PIMCO is going on light on government bonds, expecting deficits to eventually give way to inflation, while Black Rock sees no inflation and finds the steep yield curve attractive, loading up on long-term government bonds. Who is right? We will know in a year.
- **The Final TARP Tab** for the rescue of the nation's banking system is expected to be \$89 billion, far less than the original \$250 billion estimate. TARP repayments are coming in and most of the AIG derivatives have now been unwound.
- **Euro bailout of Greece:** The 15-member Euro nations have agreed to a \$40 billion loan to Greece, backed up by a \$20 billion IMF loan, to finally stem the debt crisis in Greece.
- **China reported its 1st trade deficit in six years**, just ahead of negotiation with the U.S. Treasury on its currency valuation. The trade deficit is expected to be temporary, and pressure on China will lead them to allow the yuan to appreciate up to 4% a year according to Stephen Roach of Morgan Stanley.
- **Earnings Season:** 1st quarter earnings season kicks off this week, though only about twenty companies report this week. First-quarter operating earnings of the Standard & Poor's 500 companies are expected to surge 37% from a year earlier, according to analyst estimates compiled by Thomson Reuters. **The worry:** Optimism for earnings may be getting too high, and traders could sell on the good earnings news, even if companies meet/beat their profit forecasts. Stocks peaked ahead of earnings last quarter on January 19th, and then fell 7% through the earnings season before resuming their upward trend.
- **Do not underestimate the U.S. consumer:** Frugality could be fading-March same-store retail sales rose 4.7%, while the savings rate fell to 3.1%, its lowest level since October 2008. Consumer spending may rise as much as 3% in the 1st quarter.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	+0.05%	-0.09%	+1.69%
Barclays High Yield	+0.61%	+0.68%	+5.33%
Dow Jones Industrial	+0.69%	+1.34%	+6.23%
S&P 500 Index	+1.42%	+2.18%	+7.71%
Russell 3000	+1.64%	+2.42%	+8.51%
MSCI EAFE Index	+0.46%	+1.65%	+2.52%
MSCI EAFE Small Cap	+1.84%	+2.98%	+7.89%
NASDAQ Composite	+2.14%	+2.34%	+8.15%
Russell 2000	+2.79%	+3.60%	+12.77%