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ALL STAR FINANCIAL

Weekly Market Wrap

May 17, 2010

Review - Week Ending 05/14/2010

Stocks closed up for the week in volatile trading, largely from the 4-6% gains on Monday's relief rally following the $1 trillion Euro bailout package. This is the final week of the 1st quarter earnings reports and the results have remained strong, lending confirmation to a sustained recovery in corporate earnings.

Commentary/Highlights

- **Euro concerns** continue to overshadow what has been a good 1st quarter for corporate earnings and generally improving economic data in the U.S. The euro has reached a 4-year low against the dollar, and in addition the economic woes of Greece and Spain the Euro region has a new political coalition in Britain and growing anti-bailout sentiment in its leading economic power of Germany. Asia overtook Europe as the largest importer from the U.S. economy in March. Weak economic growth in Europe could slow export growth for U.S. businesses after the last few quarters of stronger growth.

- **The Euro has fallen almost 20% against the dollar** since its high last November, and Capital Economics forecast another 10% decline for the remainder of 2010, with the currency reaching parity with the dollar again in 2011.

- **Economic Update:** Despite the fallout from Greece, Moody's global survey of business confidence has continued to improved hitting another high last week. Hiring sentiment is improving, evidenced by last week's fourth consecutive decline in jobless claims. Retail sales rose a modest 0.4% during April, and Industrial production rose 0.8%, both consistent with a slow, but improving economy.

- **Inflation Remains Tame:** Core CPI inflation has fallen from 1.8% annually at the end of the year to an annual rate of just 1.1% at the end of the 1st quarter. Despite the *potential* for inflation with expanding government debt, actual price levels have fallen slightly and are likely to remain low due to lower consumer spending levels, plenty of excess industrial capacity to absorb, and still lots of slack in the labor markets. **Low inflation is a key positive for both the economy and stock markets**. It means that the Fed can keep interest rates lower for longer, and stock prices normally do better in periods of low inflation.

- **China is buying Treasury bonds again:** China's official holdings of U.S. government bonds rose for the first time since September, increasing by $19 billion in April, bringing its total holding of U.S. debt to $900 billion. Japan was also a net buyer during April, adding $16 billion, bringing their holdings to $785 billion. Britain also added $66 billion to its treasury holdings during the month. The shift reflects a shift in confidence in the U.S. dollar and will help to keep interest rates low in the coming months.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	+0.30%	+1.80%	+3.62%
Barclays High Yield	+0.70%	+0.42%	+5.06%
Dow Jones Industrial	+2.36%	-1.90%	+2.83%
S&P 500 Index	+2.27%	-2.68%	+2.59%
Russell 3000	+2.79%	-2.11%	+3.71%
MSCI EAFE Index	+2.00%	-9.88%	-9.10%
MSCI EAFE Small Cap	+3.11%	-5.59%	-1.08%
NASDAQ Composite	+3.58%	-2.13%	+3.42%
Russell 2000	+6.31%	+2.37%	+11.43%