



# ALL STAR FINANCIAL

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## Weekly Market Wrap July 13, 2009

### Review - Week Ending 07/10/2009

Stocks declined again last week on pre-earnings jitters and mixed economic data. This is the first full week of 2Q earnings and we could see volatility increasing for the next few weeks as earnings are released. Just as General Motors emerged from bankruptcy in record time, it now appears that CIT Group, the large business lender, maybe heading into bankruptcy later this week.

### Commentary/Highlights

- **The IMF Forecast** for 2010 global economic growth has been raised to 2.5%, up from its 1.9% forecast in April. Asia's economies are expected to grow 7.0%, though growth will ultimately depend on more advanced economies of U.S. and Japan stabilizing, with Euro zone growth expected to lag global recovery.
- **Fitch Ratings downgraded** California GO debt from A- to BBB/Negative as the budget impasse continues in state that would equal the 8<sup>th</sup> largest economy in the world. The state began issuing IOUs to select payees last week to conserve cash until budget issues can be resolved.
- **Key economic theme** remains the change in the U.S. consumer behavior. Personal savings have risen to 6.9%, highest since 1993. Since consumer spending is 70% of the U.S. GDP, business and government spending will be critical to the recovery. Some economists argue the higher savings rate will allow interest rates to remain lower longer, and help replace foreign investment diversifying out of the U.S. dollar.
- **Technology** is once again becoming a favorite overweight sector for many managers. Low inventories, shorter product cycles, and historically low relative valuations are in its favor. Wells Fargo expects equipment and software spending to resume growth in 4Q 2009.
- **Financial** stocks will also be in focus this week, with Goldman Sachs, JP Morgan, Black Rock, and Bank America all reporting. TARP payments, rising delinquencies, equity dilution, and loan loss reserves, will all complicate results for investors.
- **Cash for Clunkers appears to be helping in Germany.** The program went into effect earlier this year, new car registrations were up 40% in June, and consumer durables, which include autos, rose 6.4% in May.
- **Economists and the Obama Administration** has argued that the stimulus measures will need time to work. However, two areas of the economy may eventually need more aggressive action. **Unemployment** is at 9.5%, but if the BLS U-6 measure is used, which includes discouraged and part-time for economic reasons employment, unemployment is at 16.5%, the highest it has been since series began in 1994. **Housing** foreclosures are continuing to rise, and now are rising faster among prime borrowers. It is estimated 30% of mortgages are now under water. Loan modification programs are helping but do not appear to be aggressive enough, and a high percentage of modified loans are going back into default. **More effort may be needed on both of these fronts.**

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	+0.87%	+1.18%	+3.10%
Barclays High Yield	-0.41%	+0.00%	+30.43%
Dow Jones Industrial	-1.56%	-3.55%	-5.48%
S&P 500 Index	-1.88%	-4.30%	-1.18%
Russell 3000	-2.09%	-4.46%	-0.46%
MSCI EAFE Index	-3.43%	-4.23%	+1.17%
MSCI EAFE Small Cap	-3.34%	-3.44%	+17.60%
NASDAQ Composite	-2.25%	-4.31%	+11.35%
Russell 2000	-2.09%	-4.46%	-0.46%