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Weekly Market Wrap April 27, 2009

Review - Week Ending 04/24/2009

The broad domestic and foreign indexes finished the week slightly down, indicating the recent rally may be tiring. This week brings another full calendar of earnings reports and a generally light economic calendar, with the FOMC meeting announcement on Wednesday. Swine flu concerns dominated weekend headlines and Monday markets, with drug companies moving up on the news.

Commentary/Highlights

- **Automaker Update:** Ford announced last week their loss and cash burn has been reduced and they will be able to survive without government aid, expecting a return to profitability in 2011. GM announced they are dropping Pontiac brands, cut another 21,000 jobs and are negotiating a debt-for-stock exchange. Chrysler reached agreement on union concessions but remains stalled with debt holders. Many plants remain idle for summer. **Both GM and Chrysler bankruptcies loom as market event by quarter end. Moody's is forecasting a slight 1.1% increase in vehicle sales for April, the first increase in three years.**
- **1st Quarter GDP estimate** on Wednesday is expected to show the economy contracted by 5% during the 1st quarter, an improvement over the 6.3% decline during the 4th quarter. Bank of America estimates only 10% of stimulus package has entered economy, with more stimuli coming and the highest tax refund level since 2003, consumer spending could start to mend.
- **States and municipalities** started to feel relief from Build America Bonds, where the government subsidizes a portion of interest costs. California launched a record general obligation offer last week. At least ten states are considering income or sales tax increases to bolster budget shortfalls in the coming months.
- **The bank stress tests will be announced on May 4th and most major banks will show adequate capital levels.** Bank of America, Citigroup, Wells Fargo and PNC Financial are banks that could require additional capital raises.
- **Earnings update:** After eight months of sharp cuts in earnings estimates, earnings are coming in *better than expected*. What is better than expected? Aggregate earnings are declining 26.7% versus the 33.4% expected decline. Every sector has had positive surprises, with financials surprising by the most. **Companies are beating on earnings but missing on sales, with 65% of firms missing revenue estimates.**
- **Anti-Trust Enforcement-The Answer for Too Big to Fail?** Jim Paulson of Wells Fargo notes that merger and acquisition activities of the last two decades have led to higher concentrations and monopoly power in both the financial and energy sectors. The largest financial companies have gone from 39% of sales in 1990 to 62% in 2008, the largest energy companies have gone from 57% of sales in 1990 to 77% in 2008. He suggests more effective enforcement instead of more layers of regulation.
- **Sell in May and Go Away** is an old Wall Street adage, which notes the tendency of the market to underperform during the May-October timeframe. It has held true during 10 of the last 13 years, and after the recent rally, which has been led by financial stocks, a sector that has received substantial government support, it seems to be setting up for another year.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	+0.07%	+0.34%	+0.45%
Lehman High Yield	+0.87%	+8.28%	+14.75%
Dow Jones Industrial	-0.60%	+6.33%	-6.89%
S&P 500 Index	-0.32%	+8.81%	-3.09%
Russell 3000	-0.31%	+9.44%	-2.38%
MSCI EAFE Index	+0.56%	+10.30%	-5.85%
MSCI EAFE Small Cap	+1.20%	+13.57%	+2.81%
NASDAQ Composite	+1.27%	+10.84%	+7.44%
Russell 2000	-0.12%	+13.32%	+7.44%