

Weekly Commentary

May 17, 2010



The Markets

The latest tug-of-war in the stock market is between the steady but moderate economic recovery in the U.S. and the problems facing the EU. The stock market has been buffeted almost daily by good and then bad news about proposed bailouts for Greece and the riots in that country. The financial problems that started in Greece have spread to other EU nations, and the financial markets are validly concerned that a new global financial crisis could be brewing. We doubt it. The EU countries and the International Monetary Fund (IMF) have announced very aggressive steps in an attempt to restore confidence in those financial markets. Treasury Secretary Geithner expressed confidence that Europe will resolve the debt crisis buffeting the region and said the U.S. economy is strong enough to withstand any fallout. He also said the U.S. is seeing a lot of strength. OK, sounds good, but should we believe him and stay positive on our stock market?

Well, no one knows for sure how the EU problems will play out and how much impact they will have on our economy. So who ever said life and the stock market were a piece of cake? We approach this quandary in the old Ben Franklin style by listing the good and the bad and then seeing which side has the greatest number of strong arguments. The major negative is that slowly recovering economies both here and in Europe certainly don't need another hurdle to overcome. But, we believe the positives win out. The U.S. economy is in a recovery mode. April industrial production increased 0.8%, following a 0.2% increase in March. April retail sales rose 0.4%. Also, the upturn in jobs recently is helping to boost consumers' mood. The problems in Europe are another reason the Federal Reserve will probably keep interest rates at very low levels.

Index Performance Statistics – May 17

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10625.83	5.67	0.05	1.90	24.95
NASDAQ	2354.23	7.38	0.31	3.75	35.90
S&P 500	1136.94	1.26	0.11	1.96	24.98

Source: Bloomberg

*Price return — does not include dividends

Greek Bonds Rise After EU Transfers \$18 Billion

Greek 10-year government bonds rose, snapping a three day decline, after the European Union lent the country 14.5 billion euros (\$18 billion), assuaging concern it won't be able to pay back investors. The gain sent the yield down by the most in a week as the first transfer of funds allowed the country to repay 8.5 billion euros of bonds due tomorrow and avoid default. European finance ministers said Greece's debt crisis won't lead to a continent-wide austerity drive that may tip the economy back into a recession. Spain's 10-year bonds declined as the nation's borrowing costs rose at a sale of 12-month and 18-month bills. There's "a little bit of relief," said [Elisabeth Afseth](#), an analyst at Evolution Securities Ltd. in London. While "the default risk hasn't been eliminated, it has been delayed."

Last Week

It was Déjà vu all over again this week on Wall Street. Stocks rebounded from the prior week's drubbing after the European Union announced on Monday its plan to solve its credit crisis. In addition to the \$1 trillion "Euro TARP" plan, pledges by both the U.K. and Spain to curtail their budget deficits helped alleviate concerns that the region's woes would impede the global recovery. With some of the uncertainty removed from the market, the S&P 500 index rose 4.2% through Thursday's session to recover much of the prior week's 6.4% drop – the largest weekly decline in 14 months.

Although market action doesn't repeat, it feels as if we've been here before. Prior to the recent pullback, the last decline was at the beginning of 2010 when the S&P 500 fell 8.1% from Jan. 19 to Feb. 8. This is very close to the slide of 8.7% from April 23 to May 7. In addition, both sell-offs were predicated on the impact of Greece's debt woes and China's attempt to slow its growth. Better-than-expected economic data snapped the winter chill that led to a subsequent 15.19% rally by S&P 500 index to the April 23 high. Therefore, along with the belief that the European sovereign debt plan is working, investors will likely want to see continued signs of economic recovery if the market is to rally further from the May 7 low.

As a result, extra emphasis may be placed on next week's economic data. On the docket are manufacturing and housing updates with scheduled releases of the May Empire Manufacturing and Philadelphia Fed surveys and April housing starts. In addition, the monthly Producer Price Index and Consumer Price Index readings are projected to show inflation remains subdued. Although Thursday's leading indicators report is estimated to show economic expansion slowed in April compared to March, it's also expected the consecutive string of monthly increases will extend to 13. With the next FOMC meeting not until June 23, investors will focus on Wednesday's release of the FOMC Minutes as well as speeches by Fed presidents Pinalto and Dudley and former chairman Volcker.

In addition to the economic data, stocks could get a boost from the remaining companies left to release first-quarter earnings. Headlining next week's calendar will be Dow Jones Industrials Average constituents Hewlett-Packard, Home Depot and Wal-Mart. Earnings reports from Deere and retailers Lowe's, Target, Saks, Staples, PetSmart Advanced Auto Parts and Gap could provide additional signs of economic improvement to lift stocks higher. Other potentially market-moving first-quarter earnings next week include Applied Materials, Marvell, and Dell in tech; asset manager Eaton Vance; and Hormel Foods.

Weekly Focus – Think about it

“Until you play it, St. Andrews looks like the sort of real estate you couldn’t give away.”
~ Sam Snead

Best Regards,

Jim, Aaron & Angela
Kennedy Financial Services

Securities & Advisory Services offered through VSR Financial Services, Inc.
A Registered Investment Adviser and Member FINRA/SIPC
Kennedy Financial Services is Independent of VSR.

- * The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.
- * The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.
- * The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- * Bloomberg is the source for any reference to the performance of an index between two specific periods.
- * Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
- * This commentary should not be considered individual investment advice and you should consult your financial professional before making any investment decision.
- * You cannot invest directly in an index.
- * Past performance does not guarantee future results.
- * The Markets prepared by Al Goldman, Chief Market Strategist, Wells Fargo Advisors 5/18/10.
- * Greek Bonds Rise: cited by Lukanyo Mnyanda - Bloomberg 5/18/10
- * Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 5/14/10.
- * The opinions expressed here reflect the judgment of the authors as of the date the report and are subject to change without notice.
- * This report was prepared by VSR Financial Services, Inc. Wealth Management Department.