Commentary

It would be an understatement to say that this has been a most interesting period in the stock market. The global economy continued its historic decline, yet late in the quarter we saw a considerable rally by all major averages, apparently brought upon by recently proposed legislation and a new-found optimism in our economy.

As we brought in the New Year, there was not much market activity as people waited on the sidelines to see what effects new government legislation might have to improve the economic situation. There was a malaise surrounding the country as we witnessed stunning and accelerating changes in the economy. We did witness a few brief rallies in the market, but they were characterized by low volume, a lack of institutional support, and no ability to follow on subsequent trading sessions.

Over the last nine months, we have endured one of the worst economic downturns on record. Nevertheless, we are now cautiously optimistic about the speed of economic recovery. Although there is no quick fix to our current situation, businesses are reassessing their core fundamentals, focusing on profitability, and establishing a better position from which to compete.

Consumer spending looks to have improved, but we need to see continuing gains to feel comfortable that the almighty consumer is spending again. There have been recent signs of stability in the credit markets, even as stock prices have dropped dramatically, and key interest rates are substantially lower than in the fourth quarter of 2008. Commodity prices are also firming, especially those for oil, and this is a signal of relative economic stability. China is investing the huge surpluses they have accumulated over the years in large natural resource projects in Latin American and Africa, suggesting that commodity prices have bottomed.

In late March, the Administration outlined a coordinated effort to remedy the most troublesome sectors of the economy: banking and housing. While previous policy attempts by the Administration appeared to have been opaque and toothless, this attempt was well received. The market soared as the Treasury Secretary outlined a new program to help the ailing banking system by removing “toxic” assets from bank balance sheets. By removing these “toxic” assets, banks should now be able to go about business and return to traditional lending.

The housing sector has recently shown signs of life, after almost two years of considerable decline. The Administration’s proposals to improve affordability seem to be working as prices are settling and the volume of sales has increased. Programs for new mortgages were well received by the market. However, new mortgages are, and should be, scrutinized by lenders. Refinancing programs could really help consumer spending and would in turn help the economy.

As I mentioned above, we are cautiously optimistic about the economic recovery. That being said, however, we are also entering earning season, and, although we believe second quarter earnings are already reflected in the market, there could yet be surprises that could prompt volatility.

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