

MARKET COMMENTARY

1st Quarter, 2010



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Domestic

US stocks rallied in the first quarter of 2010, with the S&P 500 Index up 5.4%, its fourth consecutive positive quarter. Nearly all sectors had positive returns in the first quarter of 2010, with the heavily weighted financial sector driving the index higher after pulling back in late 2009. The best performing sectors were the cyclical industrials (+13.1%), financials (+11.1%) and consumer discretionary (+10.5%), sectors that are more sensitive to changes in the overall economy. The worst performing sectors, and only sectors with negative returns, were telecommunications (-4.3%) and utilities (-3.5%). Value outperformed growth (S&P 500/Citigroup Value Index, 7.1%; S&P 500/Citigroup Growth Index, 3.7%), due to the high concentration of financial stocks in value. Small and mid-cap stocks outperformed large-caps (S&P SmallCap 600 Index, 8.6%; S&P MidCap 400 Index, 9.1%). The Federal Reserve continues to keep short-term interest rates at zero and appears comfortable leaving the stimulus in place for an “extended period” due to lack of observed inflation. With the recent healthcare reform bill and future tax rate increases on investors, the impact on financial markets is less clear. As this unfolds, our broadly diversified, sector-neutral Tax Managed Core portfolios will provide a great opportunity to capture the next market leaders, while doing so in a tax-efficient manner.

International

In international markets, the MSCI EAFE Index was up 0.87% in the first quarter of 2010 and MSCI EM Index was up 2.4%. In developed markets, Finland was the strongest performer (12%), followed by Denmark (9.7%) and Japan (8.2%). The worst performing countries were Spain (-15.3%) and Greece (-13%). The standout top performing sector was technology (+11.9%), while the worst performing were telecom (-4.6%) and utilities (-4.4%). In the first quarter, the US dollar continued the trend established in late 2009 of strengthening versus major currencies. Most notably, the US dollar appreciated versus the Euro (+6%) and British pound (+6.5%), while the Australian dollar appreciated versus the US dollar (+2.2%). As the European Union faces the challenge of Greece's potential default, the Euro continues to fall out of favor as a safe haven currency, further bolstering the US dollar and Japanese yen.



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About Parametric

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