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January 2010: Market Review

After continuing the rally of 2009 into the first three weeks of 2010, U.S. equity markets finished the first month of the new year on a weak note. The Dow Jones Industrial Average ended January down (3.32%). The S&P 500, down (3.60%), and NASDAQ, down (5.37%), also declined in the first month of 2010.

The U.S. economy continues to show signs of recovery, growing faster than expected at the end of 2009 and at the fastest pace since 2003, mostly due to business spending. Consumer confidence reached its highest level in more than a year at the end of January. However, the unemployment rate remains at around 10%, and high unemployment could make consumers reluctant to spend. Sales of both new and previously occupied homes fell unexpectedly in December, but this may be the result of the U.S. government extending the tax credit given to home buyers to April of 2010.

Value style equities outperformed growth style equities across all capitalizations in January. The Russell 1000 Value Index lost (2.81%) in January, while the Russell 1000 Growth Index was down (4.36%) for the month. Among small capitalization stock indexes, the Russell 2000 Value Index fell (2.93%) to start 2010, and the Russell 2000 Growth Index lost (4.47%) during the month.

The start of 2010 was also tough on the international equity markets. The MSCI EAFE Index lost (4.44%) in January. The MSCI Emerging Markets Index, the best performing international index in 2009, fell (5.65%) during the month.

Fixed income returns were strong across most categories in January as interest rates fell across the yield curve. The Barclays U.S. Aggregate Index gained 1.53% in January. The Barclays Corporate High Yield Index, the best performing bond index of 2009, gained 1.27% for the month. The Barclays Treasury Composite Index struggled in 2009, but was up 1.58% to start 2010. Longer term treasury bonds, as measured by the Barclays U.S. Treasury: 20+ Year Index, have started out well in 2010 with a gain of 2.59% in January.

The poor performance of the equity markets in January reminded investors that rallies, much like the drops that often precede them, will not last forever. The economy continues to slowly improve, but challenges such as the problems with housing and employment still remain.