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July 2010: Market Review

After the sharp market correction of May and June, the major U.S. equity indexes rallied strongly in July. The Dow Jones Industrial Average gained 7.23% and is now positive year-to-date, up 1.87%. The S&P 500 Index rose 7.01% during the month, but remains down a modest (0.11%) for the 2010 calendar year.

Despite the strong equity market performance in July, broad statistical support for a robust economic recovery continues to be weak. Unemployment is holding steady at just under 10%, and with recent GDP estimates revised lower, an improvement in unemployment numbers is likely to take longer than expected. Home sales remain weak, even with historically low mortgage rates. Consumer confidence has also fallen in recent months, showing Americans' fear about the economy's prospects and the possibility of a double-dip recession.

Growth and value stocks across all capitalizations rose at about the same rate in July, although value maintains an advantage over growth year-to-date. The Russell 1000 Growth Index gained 7.13% during the month, while the Russell 1000 Value was up 6.77%. Year-to-date, the Russell 1000 Value Index is up 1.30%, while the Russell 1000 Growth Index is down (1.06%). Among small cap stocks in July, the Russell 2000 Value Index rose 7.14% and the Russell 2000 Growth Index gained 6.61%. Small cap value stocks have outperformed small cap growth stocks by about 120 basis points so far this year (5.38% vs. 4.15%).

International equities, much like U.S. equities, had a great month in July. The MSCI EAFE Index gained 9.41% for the month, but remains down (6.70%) year-to-date. Emerging markets also had a solid month, with the MSCI Emerging Markets Index up 8.00%. Year-to-date, emerging markets have managed a slight gain of 0.20%, even with reported manufacturing slowdowns in several Asian countries, including China. European markets did well in July, as the MSCI Europe Index was up 11.54%. However, the MSCI Europe Index is down (8.97%) year-to-date, as concerns over the health of the European banking system have shaken investors' confidence in riskier asset classes. Recent stress tests of European banks showed a low failure rate, but questions have arisen about the test results and how rigorous the tests were.

Bonds generally did well in July, despite investors' renewed comfort with equities. The Barclays U.S. Treasury Composite Index gained 0.68% for the month and is up 6.58% year-to-date. Longer term treasury bonds, as measured by the Barclays Treasury 20+ Year Index, fell (0.63%) in July, but have gained 14.17% year-to-date. The Barclays U.S. Aggregate Index added 1.07% in July and is up 6.46% so far in 2010. The Barclays Corporate High Yield Index delivered the best fixed income performance of the month, gaining 3.56% in July and 8.23% year-to-date.

Investors are currently dealing with a great deal of uncertainty as the U.S. financial system prepares to adjust to new government regulations and the economy struggles to sustain a recovery without significant federal government support. Market volatility is likely to continue as investors react to company earnings and economic data.