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May 2010: Market Review

The major U.S. equity indexes had their worst May in 70 years as investor concern over the ability of certain Southern European nations to pay off or refinance their sovereign debt caused doubt about the future of the euro and fear of cutting short the nascent global economic recovery. The Dow Jones Industrial Average was down (7.56%) for the month and has lost (1.63%) year-to-date. The S&P 500 fell (7.99%) in May and is down (1.50%) so far this year. The NASDAQ Composite had the worst performance for the month, down (8.29%) in May and (0.53%) year-to-date.

Although equity markets were weak in May, the U.S. economy continued to show signs of improvement in several key areas. Consumer confidence rose for the third straight month in May. Although still high at just under 10%, the U.S. unemployment rate fell slightly. According to the Institute for Supply Management's monthly Purchasing Managers Index ("PMI"), U.S. manufacturing production remains at a positive, expansionary level. Home prices remain low and affordable with mortgage rates at record lows. However, the recent expiration of the home buyer tax credit could put pressure on the still-fragile housing market.

Growth outperformed value across all capitalizations of U.S. equities in May, although both styles were down significantly. Among large cap stocks, the Russell 1000 Growth Index fell (7.63%) during the month, while the Russell 1000 Value was down (8.22%). In small cap stocks, the Russell 2000 Growth Index was off (6.61%) in May while the Russell 2000 Value Index lost (8.45%). Despite growth's outperformance in May, value continues to dominate growth across all capitalizations so far this year.

With the euro's weakness relative to the U.S. dollar, international equity markets fell further than U.S. equity markets in May. The MSCI EAFE Index lost (12.06%) in the month and is now down (13.72%) for the calendar year-to-date as the euro hit a four-year low during the month. The MSCI Emerging Markets Index also struggled in May, losing (9.18%), but has fared better than the EAFE year-to-date, only down (6.37%).

Given the significant weakness in global equity markets, high quality fixed income investments had a solid month in May. The Barclays U.S. Treasury Composite Index gained 1.71% for the month and has added 3.93% year-to-date. The Barclays U.S. Aggregate Index was up 0.84% in May and has gained 3.71% in 2010. Longer term treasury bonds, as measured by the Barclays Treasury 20+ Year Index, had a great month, up 5.21% in May and up 8.89% year-to-date. The Barclays Corporate High Yield Index took its cue from the weak equity markets and declined (3.59%) for the month. However, it remains positive year-to-date, up 3.23% so far in 2010.

May serves as another reminder to investors that more than ever, economies and financial systems around the globe are intertwined. While the U.S. recovery continues, the struggles in Europe are drawing much attention as a possible roadblock to global recovery.