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**AND THAT'S THE WEEK THAT WAS…**
**For the Week Ended February 19, 2010**

***Market Matters…***

| **Market/Index** | **Year Close (2009)** | **Qtr Close (12/31/09)** | **Previous Week (02/12/10)** | **Current Week (02/19/10)** | **YTD Change** |
|---|---|---|---|---|---|
| Dow Jones Industrial | 10,428.05 | 10,428.05 | 10,099.14 | **10,402.35** | **-0.25%** |
| NASDAQ | 2,269.15 | 2,269.15 | 2,183.53 | **2,243.87** | **-1.11%** |
| S&P 500 | 1,115.10 | 1,115.10 | 1,075.51 | **1,109.17** | **-0.53%** |
| Russell 2000 | 625.39 | 625.39 | 610.72 | **631.62** | **+1.00%** |
| Global Dow | 1,984.48 | 1,984.48 | 1,857.02 | **1,893.58** | **-4.58%** |
| Fed Funds | 0.25% | 0.25% | 0.25% | **0.25%** | **0 bps** |
| 10 yr Treasury (Yield) | 3.85% | 3.85% | 3.69% | **3.78%** | **-7 bps** |

Just where has the time gone? Seems like just yesterday that country (world for that matter) was mired in the worst recession in modern history. Fresh off his November '08 election, Prez O (and his partisan congressional counterparts) swung into action and passed a $787 billion stimulus package, aimed at righting the wrongs of the past and jumpstarting the economy. One year has since passed (happy anniversary!); so where do things stand today? (That really depends on who you ask and from which party they hail.) Obama touts the estimated 2 million jobs that have been added (or saved), the tax cuts for working families, and the overall positive direction of the economy. Republicans counter that private businesses are still not hiring, the heavy-hand of government now has a socialist feel, and the outrageous spending added to a ballooning debt that will stifle future growth. With only about a third of the budgeted amount distributed thus far, year two "promises" more funds flowing into infrastructure projects, additional private sector jobs, and new tax cuts for small businesses. Only time will tell (but the bickering will continue).

**HP** highlighted the earnings of the week as the tech giant experienced another strong quarter and forecast even better times ahead. Rival **Dell** was not so fortunate as the company continued to struggle with shrinking margins (discounted PCs) and a lack of biz spending. **Kraft** posted a nice profit on cost-cutting measures and higher volumes; **Barclays PLC** has greatly benefited from its acquisition of the North American ops of **Lehman** (remember those guys?); **Wal-Mart** issued disappointing sales figures and offered a weaker-than-expected outlook; on the other hand, **JP Penney** overcame higher pension costs and projected stronger sales and enhanced market share; and **Whole Foods** bested expectations as Americans appear to be living healthier lifestyles.

In other biz news, the alliance between **Microsoft** and **Yahoo** was approved in Europe setting the stage for the two companies to go after **Google**'s 90% search engine market share. **General Growth** scoffed at **Simon Properties'** $10 billion offer that would have created the largest domestic high-end mall operator. **Schlumberger** and **Smith International** appear to be engaged in more "amicable" talk about a $9-ish billion merger. And that once thriving enterprise known as "Tiger" expressed "sincere" remorse and took an initial positive step toward recovery.

Traders enjoyed an early week (Prez Day) vacation and reported to work eager to help the markets regain their upward promise. The bulls rejoiced over favorable news about Europe's future role in aiding Greece (and others) as they struggle with budgetary issues. More optimism followed on positive earnings reports and signs that manufacturing was leading the economic recovery with no signs of inflation (for now). Crude resumed it upward trek as heating oil and diesel fuel inventories fell in the latest energy reports and traders reacted positively to prospects of economic growth. A symbolic Fed move on the discount rate (see below) initially raised a few eyebrows as analysts awaited the inevitable unwinding of the stimulus actions. Still, equities closed higher on each of the four trading sessions and approached breakeven for the year.

**Economic Calendar**

| Date | Release | Comments |
|---|---|---|
| February 17 | Housing Starts (01/10) | Activity increased but building permits declined |
| | Industrial Production (01/10) | 7th consecutive monthly increase |
| | Fed Policy Meeting minutes | Projected expansion increased from prior estimates |
| February 18 | PPI (01/10) | Few signs of inflationary pressures |
| | Initial Jobless Claims (02/13/10) | Increase reflected harsh winter storms |
| | Leading Eco. Indicators (01/10) | 10th straight increase in forecasting index |
| February 19 | CPI (01/10) | 1st monthly decline in core prices in almost 28 years |
| **The Week Ahead** | | |
| February 23 | Consumer Confidence (02/10) | |
| February 24 | New Home Sales (01/10) | |
| February 25 | Initial Jobless Claims (02/20/10) | |
| | Durable Goods Orders (01/10) | |
| February 26 | GDP – 4th qtr revised | |
| | Existing Home Sales (01/10) | |

European finance ministers got together during the week to debate the future of Greece (and Portugal and Spain and Italy etc., etc., etc.) While they appeared to take a hard-line about the country's personal obligation to "right its own ship," most watchers believed that they will come through with the needed financial assistance when appropriate. March 16th has become D-Day for Greece to exhibit significant progress in closing its budget gap (or else?). Meanwhile **Goldman Sachs** emerged as a major contributor in this classic Greek tragedy as the financial behemoth apparently helped devise the off-balance sheet swap transactions that greatly contributed to the country's current debt challenges. (Any nice bonuses paid on those deals?)

Manufacturing data headlined the week in the economy as reports ranging from January industrial production to the NY Empire Manufacturing Survey to Philly Fed factory activity all depicted steady and ongoing sector growth. Even the housing data was deemed positive (somewhat) as January starts were reported as better than analysts' expected and the National Association of Home Builders revealed that its confidence index rebounded from a seven-month low. On another positive note, the Mortgage Bankers Association claimed that fewer borrowers missed a home loan payment during the fourth quarter. The dreaded "I" word has yet to emerge (at least once the volatile food and energy prices are factored out of the equation) as core CPI declined in January for the first time since December 1982. While jobless claims increased last week, the eternal optimists pointed to the winter storms that shut down businesses (and any related hiring) for days; in fact, the more accurate four-week moving average actually fell.

Dr. Bernanke and friends took an initial plunge into unwinding the stimuli by raising the largely symbolic discount rate to 0.75 percent. The Fed went out of its way to disclaim the action and indicated that it "*did not signal any change in the outlook of the economy or monetary policy…and its not expected to lead to tighter financial conditions for households or businesses*." The Fed charges the discount rate to banks for emergency lending purposes so the move is more reflective of its view that the most dire times have indeed passed. The Fed released minutes from its most recent policy meeting which revealed a more optimistic outlook on economic growth, and vowed the keep rates low (discount rate hike not-with-standing) for an "*extended period*." Still, the policymakers expect unemployment to remain higher-than-desired for the next few years as consumers and businesses stay cautious about the economy and restrict normal activities.

***On the Horizon…***Retailers take center stage as **Nordstrom** (2/22), **Macy's** (2/23), and **Target** (2/23) report earnings and **Lowe's** (2/22) and **Home Depot** (2/23) reveal whether consumers have initiated any home improvements. Some analysts expect 4th quarter GDP to be revised down (from 5.7%), while hoping the confidence index continues to show growing consumer optimism.