

Market & Wealth Management Update

April 30, 2009

Stock Markets Post Solid Gains in April

U.S. stock markets continued their robust path in April, advancing 7.4% as measured by the Dow Jones Industrial Average. The month caps a rally now in its seventh week, with the Dow now up 28% since March 9th. Investors appear to believe that the worst is behind the markets in the financial crisis and the global recession, sending stocks higher in April in anticipation of better news to come. Interestingly, the economic data and corporate earnings releases in April were quite weak, but the markets took inspiration from how the speed of the downward trend is moderating. This is an important point, we believe, because the data still shows current conditions worsening overall. Investors have been euphoric over the fact that things are getting worse, but at a slower pace.

Globally stocks rose strongly in most markets, with the MSCI EAFE Index gaining 12.3%. The chart below shows the path of the market so far in 2009 as measured by the S&P 500. It's notable that the market up to March 9th was down 25% for the year. Since March 9th the S&P has rallied 29%

<i>Market Statistics</i>		
<i>April 30, 2009</i>		
	Level	Year-to Date %
Dow Jones	8,168	-6.9%
S&P 500	873	-3.4%
NASDAQ	1,717	+8.9%
MSCI EAFE	1,186	-4.2%
Oil (WTI)	\$51.12/bl	+14.1%
Barclays Agg Bond Index		+0.6%
Federal Funds Rate	0-0.25%	
6 Mos Treasury Bill	0.30%	
2 Year Treasury Note	0.95%	
5 Year Treasury Note	1.97%	
10 Year Treasury Note	3.12%	



Chart Courtesy of StockCharts.com

U.S. Economic Data Still Quite Weak

The positive sentiment in the market is partly fueled by recent “less bad” economic reports. Consumer confidence data reported at the end of the month was well above expectations but at a level still reflecting recessionary conditions. Sales of single-family existing homes were 2.7% lower than a year ago, but the rate of decline has been slowing. While the slowing pace of decline is a positive, it's telling about the status of the housing market that half of the homes sold in the month were either foreclosures or short sales. On the employment front, the latest week saw initial claims for unemployment insurance at a still high level of 640,000, indicating that job losses continue. A preliminary report on first quarter GDP in the U.S. saw the economy fall 6.1%, the third consecutive quarter of decline. Much of the decline was attributed to businesses shedding excess inventories. Some look to the need for re-building of inventories as a positive for growth by year-end. Consumers will have to be able to purchase those re-stocked goods, however, for the economy to really take flight and that depends on jobs.

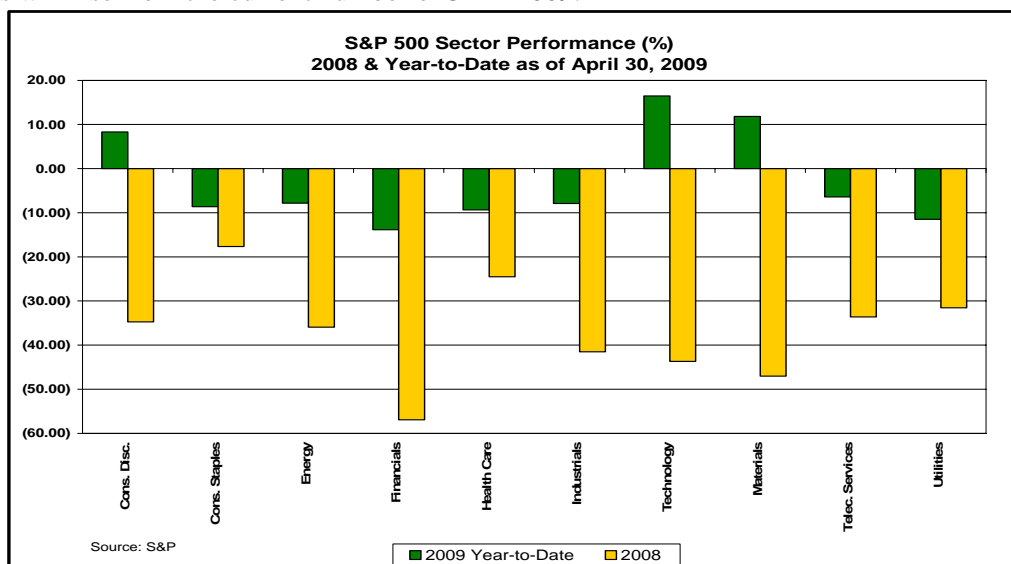
Some analysts are looking at the positives of the economic data appearing to be leveling off, hopefully marking the low point of the recession. What perhaps deserves equal time is how corporate earnings, consumer spending and employment in the near-term quarters will be affected by the diminished global economic headwind. The deleveraging process for consumers, for example, will take considerable time before consumer spending returns to

more normal levels. Also important to the analysis of the economy is the degree to which the government is spending to keep things afloat. Government debt is running at a rate of 12% of GDP, which is a record for peacetime in the U.S. However, state and local governments face reduced revenue and budget problems. A reasonable question to ask is what happens when the deficit spending slows and possible tax hikes take effect next year?

Financial and Consumer Stocks Lead the Rally

Stocks that had declined the most since last fall were among those making the biggest advances in April. Financial stocks gained 22% and Consumer Discretionary stocks rose 18%. The chart below shows the performance of the major stock market sectors so far in 2009 compared to 2008. The disparity between sectors up and those down is notable. Consumer Discretionary and Information Technology stocks are positive while more defensive sectors like Health Care and Consumer Staples are negative. The most cyclical categories have risen solidly now in 2009, consistent with an expectation by the market that a recovery is 6-9 months away.

For Financial sector stocks, the gains come amidst speculation about the results of the “stress test” of a handful of the largest banks. We expect that several of the big banks will need additional capital this year and the number of “failed” banks will rise from the current number of 31 in 2009.



Source: S&P

There is unquestionably an increased appetite for risk now in the market again. High yield bond prices rose nearly 10% in April, the biggest monthly gain on record. However, the bond market is also beginning to act like it too sees the possibility of the recession ending as U.S. Treasury yields began to rise at month end. The bond market is concerned about the effect of the money the government has put into the economy and financial markets. Near-term inflation should not be a problem with the slow economy, but the risk later is that rates move higher.

Investment Strategy – Much has been written in recent weeks about the “green shoots” of both springtime and an economic recovery. The market’s performance in April was a welcomed sign of stabilization and growth to investors that seem to be celebrating a recovery. We have a concern that the move is a little too much too soon given that earnings for many companies remain at low levels and expectations for this year or next are not yet moving higher. Moreover, one must pay attention to the above average profit margins at companies not yet experiencing the likely downturn in revenues. Companies have cut costs to the bone, so margin risk and the effect of disappointment on stock prices exists for a number of stocks. Our patient focus on the quality of earnings and the search for stocks at reasonable prices will continue, along with our cautious approach to portfolio allocations.

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Acadia Trust, N.A. is a Maine-based wealth management firm, with a distinctive approach based on our disciplined research process, value-oriented style of equity investing and our high quality approach to fixed income investing. As a trusted advisor to our clients, we provide portfolio management, trust, estate, financial planning and retirement plan services throughout New England.

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