

Monthly Investment Update

May 2010



First National Bank
Investment Management & Trust

Highlights

April's news included positive ISM Manufacturing Index, Retail Sales, and Consumer Confidence readings. In addition, the S&P Case Shiller Home Price Index reported its first gain since 2006 and GDP recorded its third consecutive gain. The 1Q 2010 corporate earnings results have been overwhelmingly positive as well, making this the second best quarter ever in terms of earnings surprises so far. Unfortunately, April's news also included tragic, allegedly scandalous, and concerning headlines as well. The oil rig fire and oil leak in the Gulf of Mexico claimed human lives and threatens the gulf environment. The SEC charged Goldman Sachs with fraudulently marketing certain investments. And lastly, Standard and Poor's downgraded the sovereign credit ratings of Portugal, Spain, and Greece, with Greece relegated to junk status. By month's end Greece formally requested and received aid. Collectively the positive news from the beginning of the month more than offset the negative news from the end of the month with all but one of the regularly reported indices earning positive returns for April. ❖

Sources: Bloomberg, Brown Brothers Harriman

Asset Class	Index	4/30/10	Total Return 1 Month	Total Return 3 Month	Total Return YTD	Total Return 1 Year
Domestic Equities	Dow Jones Industrial Average	11,009	1.53%	10.08%	6.42%	38.69%
	S&P 500	1,187	1.58%	11.05%	7.05%	38.84%
	S&P 400 Mid-Cap	823	4.26%	17.52%	13.74%	48.92%
	Russell 2000	717	5.67%	19.42%	15.02%	48.99%
International Equities	EAFE Index	1,551	-1.73%	3.80%	-0.77%	34.96%
Fixed Income	Barclays Capital Intermediate Gov/Cr	-	0.87%	1.02%	2.42%	7.36%
	Barclays Capital 7 Yr Muni	-	0.96%	1.33%	2.24%	6.06%

Sources: Bloomberg, Barclays Capital Indices

Market Update

Equities: The equity markets produced mixed returns in April. International stock markets punished risk while the domestic stock market rewarded risk. Concerns about Greek, Portuguese, and Spanish sovereign debt credit quality weighed on international stock markets. The EAFE index accordingly declined -1.73%. The domestic S&P 500 index, on the other hand, increased +1.58%. Economically sensitive sectors like consumer discretionary, energy, and industrials positively contributed to the index's return while economically stable sectors like health care and consumer staples detracted from the index's return. The domestic stock market also rewarded distressed equities (as measured by low stock price) with premium performance.

Fixed Income: The fixed income markets rewarded risk in April. The Barclays Capital Intermediate Government/Credit index, a reflection of the taxable fixed income market, earned a +0.87% return for the month of April. From a sector perspective, the TIPS (Treasury Inflation Protected Securities) and corporate sectors positively contributed to the index's return, while the treasury and agency sectors limited the index's return. From a maturity perspective, longer-term bonds outperformed shorter-term bonds. The Barclays Capital 7 Year Municipal Bond index, a reflection of the tax-exempt fixed income market, earned a +0.96% return for the month of April. From a credit rating perspective, lower rated bonds outperformed higher rated bonds. From a maturity perspective, longer-term bonds outperformed shorter-term bonds. ❖

Sources: Barclays Capital Indices, Bank of America Merrill Lynch

Bottom Line

A fragile domestic economic recovery is underway. The decline in bank lending appears to be bottoming. Business owners are reinvesting in their businesses. And consumers are spending. Challenges, however, remain. Construction is still declining and debt and the unemployment levels remain at elevated levels.

Internationally the outlook is less certain. European economies are struggling with excessive debts while the Chinese government applies measures to slow its economic engine. These international headwinds threaten the domestic recovery.

Nonetheless, the positives marginally outweigh the negatives and support incrementally tilting asset allocations in favor of equities over fixed income. ❖

Source: Bloomberg

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