

The Economy:

Fears intensified last month that global economic growth might be slowing. The culprits being slowing stimulus in China, as well as industrial production across Europe. Our view is that while the US is somewhat insulated (and hence we believe will remain stronger than most across the globe), a slowing global economy may well impact us, and cause US growth to slow as well.

While the *rate* of growth may be starting to slow, economies across the world are still growing. Economic growth creates increased demand for raw materials and labor, and hence their cost. Our point being, while we continue to believe inflation will peak in the second half of this year it remains one of the biggest risks to markets, and investors, going forward.

The Markets:

Speaking of markets, they were little changed in April. The action was quite significant however, in that the S&P 500 again tested the key 2,600 area successfully. The action within the sectors has been encouraging as well, in that cyclical & consumer discretionary stocks continue to perform better than 'defensive' sectors such as consumer staples, utilities and health care.

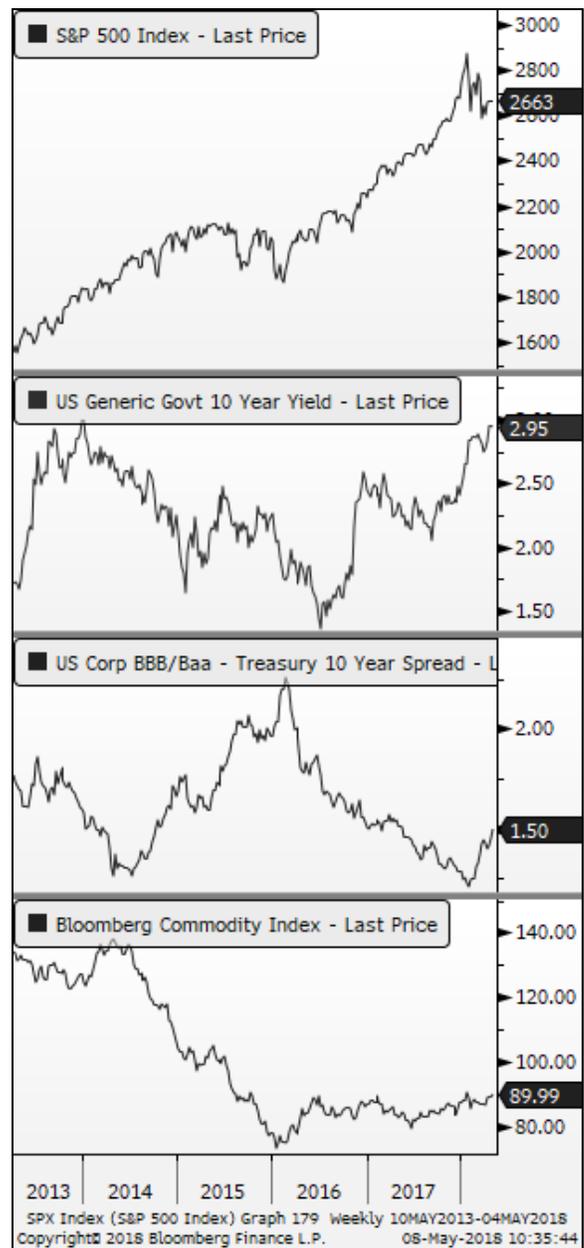
Bonds were also little changed on the month, with the benchmark 10-yr US Treasury Note stalling at the very psychological 3% area. While we do believe the 30 year decline in interest rates is over, the 10-yr may well struggle in this area for some time.

Rising rates have been widely blamed for the volatility in stocks. It is our view however that widening credit spreads have been the real culprit. While the current difference of 1½% is still contained, spreads are clearly moving off their February lows.

Finally, as noted above, the embers of inflation are indeed smoldering. The Bloomberg Commodity Index has been basing since the collapse in oil, and while it has yet to 'breakout', investors may consider adding commodities to their portfolios for protection.

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