

Crossvault Capital Management, LLC
7373 Broadway, Suite 107
San Antonio, Texas 78209
ph 210-223-6929
fax 210-223-5852



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With December turning in its best stock market performance since 1991, the year had a strong finish after the market turmoil during the summer. The Dow was up 7.3% for the quarter and 11.0% for the year, while the S&P 500 was up 10.2% for the quarter and 13.0% for the year. Interest rates rose during the quarter even though the Federal Reserve has continued its policy of near zero interest rates. The ten year Treasury is currently yielding 3.40% versus 2.50% at the beginning of the quarter. We felt that this increase in rates given the Federal Reserve's ongoing policy of Quantitative Easing was actually a positive sign of renewed economic activity.

The most recent economic data once again has demonstrated the market's role as a leading indicator. Factory activity globally has been strong: the U.S., some parts of Europe, Brazil, and South Korea have seen the best increases in six months. While the domestic economy is still performing below capacity as shown by the continued high unemployment numbers, the trends are all positive. Corporate earnings are coming in above estimates, auto sales are improving, jobless claims are coming down, and retail sales have been stronger than expected. The market also responded positively to the change of control in Congress and the extension of the Bush tax cuts. Due to rising demand for oil, the per barrel price finished 2010 above \$90. While this has been great for energy stocks and the related services companies, we will be closely watching this price for continued upward pressure. At some point, it could certainly put a damper on the consumer and increase input costs to corporations.

In addition to the increased price of oil, many of the factors that caused the short term turmoil this summer still need to be resolved over the longer term. China has tightened monetary policy in order to slow down their rate of growth before it leads to inflation, Europe still needs to deal with its sovereign debt problem, and the U.S. needs to address its own deficit problems while stimulating growth in the private sector. This applies to state and local governments as well as the federal government.

With S&P earnings estimates ranging for 2011 from \$94 to \$100, the market's forward P/E multiple looks reasonable at 13x. We like companies that can innovate in the face of global competition or that are not dependent on government spending for their revenue growth. To the extent that the job market improves, corporate earnings continue on their upward trajectory, domestic inflation remains tame, and the booming emerging economies can continue to grow while managing their inflation, 2011 looks to be a promising year. In the back half of the year we will be watching for signs of margin pressure due to higher oil prices and labor costs.

We wish you and your family a very happy and healthy New Year. We also wish Jacque all the best as she begins her new career as a retired person!

Laura Ehrenberg-Chesler
Marilou Long

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