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It has been quite an eventful start to the first quarter of 2010. With the equity markets in positive territory, “green shoots” continue to sprout in many sectors of the economy. In spite of the uncertainty surrounding the new health care bill which was recently signed into law, many sectors reached post-recession highs. For the quarter, the Dow closed + 4.8%, the total return for the S&P 500 was +5.39% and the yield on the 10 year Treasury Bond was just under 4%.

While the list of worries is long, and includes such issues as the Greek debt problem, the consequences of health care reform, inflation rates in China and India, and the Fed’s exit strategy, it is important to remember that a bull market loves to climb a wall of worry. It is highly unlikely that any of these challenges will hinder the market unless they begin to impact the cyclical recovery in corporate earnings.

However, there does continue to be reason for concern, with a stubbornly high unemployment rate, and an overleveraged consumer. One school of thought believes that these two factors in particular will keep the current recovery subpar, compared to previous post-recession recoveries. The housing and auto industries will surely continue to be a drag on the economy, as will the need for the individual to get their economic house in order.

At Crossvault, however, we subscribe to the “New Mix” school of thought, where exports and business spending pick up the slack from the more traditional drivers of growth. In addition, if the individual does in fact deleverage and save more, the economic improvement we are experiencing will be imminently more sustainable.

We will continue to closely monitor the data as it is released, particularly for housing and employment. In addition, we are optimistic about the recovery in manufacturing and corporate spending on capital equipment. Our favorite domestic theme remains companies who will benefit from growth here and abroad. In America we enjoy incredible freedom of expression, allowing creativity and ingenuity to flourish. We expect this to trump any short term challenges.

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