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Week in Review: Stocks steady after EU backs IMF aid plan for Greece

For the week ended March 26, 2010

- U.S. economy grew 5.6% in fourth quarter
- New home sales fall to record low
- Wall Street firms suspected in muni probe
- Tiffany's profits more than double
- EU backs plan for IMF aid to Greece
- Portugal's debt downgraded
- Japan consumer prices fall

Stocks were volatile around the world for much of this week as European leaders sought a solution to Greece's debt crisis and U.S. economic housing data suggested significant hurdles remain on the path to economic recovery. At the same time, yields on the 10-year U.S. Treasury note traded at nearly their highest level since June as hopes for recovery reduced demand for government debt.

U.S. economic news

Housing sector could be drag on U.S. recovery
The U.S. Department of Commerce revised its estimate of U.S. gross domestic product downward to a 5.6% annual rate for the fourth quarter of 2009. Even so, the numbers showed that the U.S. economy grew the most in six years. The GDP report also showed that corporate earnings increased 8%, which was the biggest year-over-year gain in 25 years.

Durable goods orders rose in February for the third month, while inventories and backlogs climbed by the most in a year. The rise is an indication that the manufacturing rebound will continue to power the U.S. recovery.

In February new home sales unexpectedly fell 2.2% to record lows as blizzards, unemployment, and foreclosures kept buyers away. These sales have suffered as consumers have gravitated to heavily discounted existing or foreclosed homes. New home sales are now 6.4% below their lows of last year, while sales of previously owned homes are up 10.8% from last year's low. Sales of previously owned homes fell 0.6% from January and were below the levels seen last fall, when the expected expiration of a home-buyer tax credit sparked a flurry of buying.

U.S. and global corporate news

Wall Street firms suspected in municipal bond probe; Tiffany's profits double; Lukoil pulls out of Iran

JPMorgan Chase, **Lehman Brothers Holdings**, and **UBS** were among more than a dozen Wall Street banks and investment firms suspected of involvement in bid rigging and price fixing in the municipal derivatives market, according to documents filed in a U.S. Department of Justice criminal antitrust case.

Tiffany & Co. reported that its fourth-quarter profits more than doubled as sales climbed. The jeweler also benefited from the absence of a restructuring charge that it paid last year. The company announced its plans to open 17 stores this year.

The Russian oil company **OAO Lukoil Holdings** booked a $63 million impairment loss after U.S. sanctions against Iran forced it to abandon its Anaran project in Iran. Lukoil also said that its full-year net profit fell 23% because of lower oil prices. Lukoil's statement comes after a string of Western companies, including **Royal Dutch Shell** and **Ingersoll-Rand**, said they would abstain from signing oil contracts as new sanctions against Iran loom.

Bertelsmann AG, Europe's largest media company, posted its first net loss in decades because of a decline in advertising markets and higher charges. The closely held company posted a net loss of 82 million euros in 2009 after a net profit of 142 million euros in 2008.

Global economic news

European leaders this week put the International Monetary Fund on standby to help Greece out of its debt crisis. The move is in opposition to the European Central Bank's call that Europe solve the crisis on its own. Officials have endorsed a Franco-German proposal to give Greece a mix of IMF and bilateral loans at market interest rates. Earlier in the week, the euro fell to a 10-month low as European leaders struggled to find a solution to Greece's financial crisis.

Fitch Ratings cut Portugal's credit grade to "AA-" with a negative outlook for the first time. In a statement, Fitch said that a "sizable fiscal shock against a backdrop of relative macroeconomic and structural weakness has reduced Portugal's creditworthiness." Fitch also said that the prospects for Portugal's economic recovery are weaker than its 15 European Union peers.

Japan's consumer prices fell for a twelfth month in February. The decline puts additional pressure on the Bank of Japan to do more to end deflation, which is hurting the country's economic recovery.

Stay focused and diversified
In any market environment, we strongly believe that investors should stay diversified across a variety of asset classes. By working closely with your financial advisor, you can help ensure that your portfolio is properly diversified and that your financial plan supports your long-term goals, time horizon, and tolerance for risk. Diversification does not guarantee a profit or protect against loss.

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Sources: MFS research; *The Wall Street Journal*; The Wall Street Journal Online; Bloomberg News; *Financial Times*.

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