

Advisor Economic Update April 2011



Equities, as measured by the Dow Jones Industrial Average (Dow), Standard & Poor's 500 (S & P 500), and Nasdaq composite were basically flat for the month, up or down less than 1%. Small companies, as measured by the Russell 2000 Small Cap Index, had slightly more growth, up 2.4% for the same period. In spite of all the geopolitical turmoil, growth for the quarter was positive up 6.4%, 5.4%, and 4.86% for the quarter.

Bond yields, as measured by the 10-year Treasury were slightly lower, with yields of 3.45% at the end of March compared to 3.41% in the previous month. This has been similar to the quarter, with yields at 3.3% in January, 2011. Though bonds have received support from QE2 – quantitative easing from the Fed through significant purchases of US Treasuries, yields have pushed up slightly, indicating a combination of inflationary concerns or worries over U.S. debt levels.

The earthquake in Japan has been the on the forefront, as the extent of damage and loss of life has yet to be determined. Also in question is the extent to which radiation will be contained. The impact on the local economy is mixed, as Japan will realize some growth through the rebuilding process. However, this will be offset in the short-run by production delays, loss of resources, and the inability to efficiently distribute the resources that are available. Analysts estimate production delays for certain electronic components and certain auto suppliers. Ultimately, though, the net economic effect should not be significant, as most of these sectors should be back on-line within 2 months.

Domestically, economic growth seems to be slow and stable, and most data supports this. Unemployment measures have stabilized, consumer spending is increasing (but at a slower rate than previously) and the savings rate has risen slightly, at 5.8% in January, up from 5.4%. Higher savings is generally a sign of caution, and is a drain on current growth, but this also represents potential future growth.

Though domestic growth has been mild, it has contributed to rising earnings. We expect this trend to continue, and combined with high levels of cash on corporate balance sheets, we see potential for additional growth in the future.