

Advisor Economic Update February 2011



So far so good. We're one month into the new year and markets have seen relatively strong upward movement with the Dow Jones Industrial Average (Dow), Standard & Poor's 500 (S & P 500), and Nasdaq composite were up 2.7%, 2.3%, and 1.78% respectively.

Bond yields, as measured by the 10-year Treasury are relatively flat, with yields of 3.4% at the end of January, compared to 3.3% in December.

January market movement was briefly stunted at the end of the month when political unrest in Egypt led to sharp drops in world markets. Protests and defiance of government-imposed curfews led the government to shut down internet and other wireless services. It remains to be seen exactly how this will effect the broad market, but to date, domestic markets seem to have focused more on solid manufacturing data and earnings. There are some concerns that political unrest could spread to other areas, and that ultimately oil prices could rise if transportation through Suez Canal is disrupted. While this would be an inconvenience, Egypt is not an exporter of oil, and the transport through the canal represents only 2% of the world supply.

On the domestic front, consumer spending and private demand has helped boost economic growth in the fourth quarter, with Gross Domestic Product up 3.2%. While this was below some expectations, it still represents relatively robust growth. Not yet sufficient, however, to reduce unemployment. We remind you, though, that most analysts consider unemployment a lagging indicator, because corporations usually wait as long as possible before committing investment capital to additional labor. Another positive note is that corporate balance sheets are cash-rich, and there is an expectation that some of this cash will be used for capital investment/expansion.

From a technical standpoint, the Dow seems to have some resistance at 12,000. In 2007 it was well above this level (13,000-14,000) but dropped well below (under 7,000) between 2008/2009. Continued economic growth should help valuations return to these levels, and while we have a long way to go, the gap represents significant growth potential. Short-term volatility should always be expected, but we encourage investors to keep their eyes on the horizon.