

## Advisor Economic Update June 2011



Equities were generally down in May, with the Dow Jones Industrial Average (Dow), Standard & Poor's 500 (S & P 500), and Nasdaq composite down 1.89%, 1.35%, and 1.34%, respectively. Small companies, as measured by the Russell 2000 Small Cap Index, were down 1.96% for the same period. International markets were down approximately 3.3% for the month.

Bond yields, as measured by the 10-year Treasury were slightly lower, with yields of 3.05% at the end of May compared to 3.3% in the previous month. Bonds have received support from QE2 – quantitative easing from the Fed through purchases of US Treasuries, but these purchases are scheduled to stop at the end of June. Presumably, with less demand, there is the potential that bond values will decline and long-term yields will rise.

Economic growth as measured by Gross Domestic Product (GDP) was up 1.8% for the first quarter. Other economic data for the quarter generally showed that the economy is continuing to grow, though at a slower pace relative to the fourth quarter of 2010. Both the consumer and corporate sectors reflect this in terms of spending, with some of the “slower pace” attributed to higher food and energy costs.

Inflation has been a concern, but has been relatively moderate, with the April Consumer Price Index (CPI) showing an approximate 3.2% annual increase. Excluding food and energy, which had the larger increases, the increase is significantly smaller. We expect inflation to remain moderate unless significant economic growth leads to higher demand and higher prices.

Certain elements of the economy are still lagging, such as housing and employment. However, these have been offset by strength in earnings and continued consumer spending.

We are approaching the summer season, when the weather warms and the stock market often cools. But we are also in a pre-election year, which is statistically good for equities. Ultimately, we feel the stock prices will be driven by corporate earnings, and since most pieces of the economy still appear to be in recovery mode, we expect to see continued improvement in earnings.