

Advisor Economic Update May 2011



April was a good month for equities, with the Dow Jones Industrial Average (Dow), Standard & Poor's 500 (S & P 500), and Nasdaq composite up 3.98%, 2.85%, and 3.32%, respectively. Small companies, as measured by the Russell 2000 Small Cap Index, were up 2.58% for the same period. International markets were up approximately 4.5% for the month.

Bond yields, as measured by the 10-year Treasury were slightly lower, with yields of 3.3% at the end of April compared to 3.45% in the previous month.

Bonds have received support from QE2 – quantitative easing from the Fed through purchases of US Treasuries, but recently it was announced that this support will be ending soon. This was expected and seemed to have little impact.

Overall, we feel the economic environment continues to improve. Unemployment measures have been lower, corporate earnings have been higher, and confidence is returning. Oil prices are still relatively high and this may detract slightly from future earnings, but falling prices can also add to earnings through lower production costs.

Part of the cause of higher oil prices is from the increase in money supply and a falling dollar. This has helped our exports by making them cheaper to other countries, but it can also create inflation. Moderate inflation can help increase earnings and stock values, but too much can create uncertainty and fear. The Fed will need to be diligent to maintain inflation levels, especially as the economy improves.

Other good news has been the death of Osama Bin Laden. Economically, this shouldn't provide a significant impact, but it may add to consumer confidence and also bolster the confidence in the U.S. as a nation.

Markets have rallied recently but we remind investors of the possibility of volatility and downside, especially as we near the summer months. However, it is also an election year, and this is statistically good for equities.