Advisor Economic Update Second Quarter 2010

After a positive first quarter and considerable volatility in the second, equity markets ended up down for the second quarter, with the Dow Jones Industrial Average (Dow), Standard & Poor's 500 (S & P 500), and Nasdaq composite down 9.96%, 11.83% and 12.1%, not including dividends, respectively. Smaller companies as measured by the Russell 2000 Index were down about 10.19%. International equities, as measured by the Dow Jones World Index (ex-US) were down 12.7%.

Long-term treasury values were slightly higher as a flight to quality and concerns over growth bid prices up and yields down. The 10-year Treasury ended the quarter at 2.95%, compared to around 3.83% in the previous quarter. The generally lower interest rates helped most bond sectors, except for high yield, which faltered slightly due in part to concerns over credit risk.

Gross Domestic Product (GDP) for the first quarter was 2.7%, and is expected to remain positive for the remainder of the year based on inventory replenishment alone. Home sales have recently seen declines, but only the sales commissions contribute to GDP. Housing construction, however, shows higher housing starts and completions for May, and should contribute positively to GDP for the second quarter.

In the meantime the labor market is being scrutinized for its contribution to future growth. Depending on how you spin the numbers, and which month you look at, the unemployment picture is getting better, or worse. Overall, unemployment is high, and most agree that we need increased business spending to bring this figure down. The good news is that business balance sheets are, in general, rife with cash. If we can get some commitment and confidence back into the economy, this cash can represent a significant potential contribution to economic growth.

Geopolitical risks have been a major concern lately, though analysts concede that their contribution to our growth is minimal. Despite a malaise market, corporate earnings have been strong and may see significant growth if there is a pick-up in spending. However, we are entering into the summer months, a time when business activity typically slows, and equity values are frequently volatile.