Market Index	April Change	Year to Date
Standard & Poor's 500	3.0%	9.2%
Dow Jones Industrial Average	4.1%	11.5%
Russell 2000 (small company)	2.6%	10.8%
MSCI EAFE (international)	6.0%	9.5%
Barclays Intermediate Gov/Credit Index	1.1%	1.5%
3-Month Treasury Bill	0.0%	0.1%

The Comeback Continues

In April the Dow Jones Industrial Average extended its winning streak to five months, with a total return of 4.1%, to finish the month at the 12,810 level – now within 10% of its October 2007 record high. Certain areas of the stock market have already made new highs, including small-cap stocks (Russell 2000 Index) and transportation stocks (Dow Jones Transportation Average). Although most sectors did well in April, Consumer and Health Care stocks were the top performers, a noticeable shift from a market that had been driven by energy-related stocks and cyclical manufacturers earlier in the year.

While the financial headlines tended to focus mostly on Washington policy, stock investors seemed to focus more on strength in corporate profits. With about two-thirds of companies having already reported first quarter earnings, about 3 out of 4 have exceeded expectations. As it stands, the Standard & Poor's 500 Index Earnings per Share is expected to grow by 18% in the March quarter vs. the same period a year ago.

Washington Watchers Were Busy In April

It was a suspenseful month in Washington, as a federal government shutdown loomed, a major bond rating agency warned of rising risks for government bonds, and the Federal Reserve chairman held a press conference for the first time ever.

Squabbles continued between Democrats and Republicans over spending cuts for the current year budget until an 11th hour agreement was reached, which averted a partial government shutdown. The end result of this politicized skirmish was about $20 billion in actual spending cuts, which is a tiny fraction of the deficit. That is not an encouraging sign as Washington deals with this critical issue. Yet the battlefield lines being drawn on the long-term fiscal deficit are even more important. House Republican Paul Ryan laid out his plan to overhaul health care and reduce spending to 20% of GDP over the next ten years - $6.2 trillion less than the President's original budget had suggested. In response, President Obama revised his proposal and suggested a debt-reduction plan with tax increases and spending cuts that could cut the deficit by $4 trillion in 12 years. While a large deficit reduction target is shared by both proposals, the parties still have wide disagreement on how and when to get there.

The next hurdle on the calendar is the need to increase the legal limit on the amount of Treasury debt that the government can have, or "the debt ceiling," which currently is capped at $14.2 trillion. Some have called to raise the borrowing limit to avoid the possibility of default on Treasury bonds, but in reality the current level of tax revenues is sufficient to cover debt servicing in the near term. Adding to the debt will simply raise the stakes in the future. Still, the debt ceiling has been raised before and will likely be raised again, but not before some negotiation to agree to certain spending cuts.

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The urgency of the fiscal situation was highlighted by Standard & Poor's Ratings Services, which suggested that a downgrade in the creditworthiness of U.S. Treasuries could happen if U.S. policymakers cannot reverse recent fiscal deterioration or address the long term budget outlook. Bond markets shrugged off this report and returned 1.1% in the month, as interest rates ticked lower. Still, fiscal and monetary concerns have been weighing on the dollar and boosting the value of gold. The U.S. dollar slipped to its lowest level since mid-2008, down 3.9% in the month. Gold soared to a record high, +6.7% in April, surpassing $1,500 per ounce for the first time.

The statement from the Federal Open Market Committee and the subsequent press conference widely met the consensus expectations; therefore, the market reaction was fairly calm. The Fed expects to complete its $600 billion plan for government bond purchases (aka quantitative easing or "QE2") by the end of June as scheduled. Beyond that, instead of completely halting the program, the Fed will reinvest maturing bonds in its portfolio until it determines that a more restrictive monetary policy is necessary. The press conference also reaffirmed the Fed's opinion that any current inflation pressures are "transitory" and that monetary policy is likely to remain accommodative for "an extended period." This policy will keep the real level of interest rates (interest rates less inflation) very low in the near term.

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