# May 2011

| Market Index | May Change | Year to Date |
|---|---|---|
| Standard & Poor's 500 | -1.1% | 7.8% |
| Dow Jones Industrial Average | -1.5% | 9.8% |
| Russell 2000 (small company) | -1.9% | 8.7% |
| MSCI EAFE (international) | -3.0% | 6.3% |
| Barclays Intermediate Gov/Credit Index | 1.1% | 2.6% |
| 3-Month Treasury Bill | 0.0% | 0.1% |

## Stocks Dipped in May as Investors Reassessed Risks

The stock market paused in May as a result of softer-than-expected economic news and continued worries about European sovereign debt. The S&P 500 Index was resilient, though, declining just 1.1%. The Federal Reserve's $600 billion quantitative easing program ("QE2") over the past seven months has been underpinning investors' appetite to take on risk. As that program winds down in scope as expected in June, investors are now reassessing the health of the economic recovery and the status of European sovereign credit markets. U.S. bonds provided a total return of more than 1% for the second straight month as Treasury rates plunged to their lowest level of the year amidst the global anxiety.

## Economy Hits a Soft Patch

Corporate profits have been booming for several quarters now, but a softer batch of economic news dampened enthusiasm somewhat in May.

The housing market, an intended beneficiary of the Federal Reserve's monetary stimulus efforts, has failed to recover yet and has actually worsened. The data releases during the month for housing starts, building permits, and existing home sales were all soft and fell short of economist forecasts. House prices reached a new cyclical low as measured by the S&P/Case-Shiller Home Price Index. Consumer confidence slipped in May according to surveys, but the U.S. consumer has remained fairly steady in recent months, even with depressed home prices, $4 gasoline, and 9% unemployment.

## Economy Hits a Soft Patch (Continued)

Global economic growth slowed marginally in response to higher oil prices and spikes in some key raw materials earlier this year. Many of these commodities pulled back a bit in early May. Although the lasting economic impact of the Japanese earthquake and tsunami is thought to be negligible for the global economy, short-term disruptions it has caused in the global supply chain have also contributed to some pockets of weakness recently in the manufacturing sector.

Gross Domestic Product estimates are likely to move slightly lower as the 2nd quarter data is received. Leading Economic Indicators fell 0.3% in April, and several regional economic surveys from May containing more timely data were very disappointing, suggesting that the broader data for the month will prove to be weaker than expected when it is published in June.

## Greece Continues to be the Epicenter of European Credit Problems

Greek debt worries heightened on renewed doubts about the progress of its austerity plans. The International Monetary Fund, the European Central Bank, and the European Union are trying to coordinate efforts to keep Greece from defaulting on its debt, but Greece has not been able to meet the goals that were established in conjunction with the financial aid package it received last year. As expected, European markets were disturbed by the threat of default or debt restructuring. The Euro declined 2.7% vs. the U.S. Dollar and the Euro Stoxx 50 Index fell 2.8%. In context of the world's economy, Greece is not very significant. However, the contagion from debt problems can easily spread into Europe and beyond, which is a risk for the global economy.

## Not All of the Ink Was Red in May for Stocks

Four defensive sectors did have positive stock returns in the month: Consumer Staples, Health Care, Utilities, and Telecommunication Services. As risk appetites waned, steadier companies with nice dividend yields attracted investors. Also, the fervor for the burgeoning social networking industry was evident in LinkedIn's initial public offering. It became the first publicly-traded company in this new technology industry, and with a renewed enthusiasm for Internet companies, its price more than doubled in its first day of trading (although it has since given back some of that gain). Unlike last spring, the market has thus far avoided a broad correction, and there has been an orderly rotation in sector leadership in response to recent global macroeconomic news.

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