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# Monthly Market Update, June 2011

*Presented by Sean Gross, CFP®, AIF®*

**Equity markets slide lower**

- Equity markets softened during May, as investors eased back on the risk trade.
  - The S&P 500 Index lost 1.13 percent for the month, though it is still up 7.82 percent since January 1.
  - The Dow Jones Industrial Average was down 1.35 percent for the month, but it, too, is positive for the year, up 9.79 percent.
- In the first quarter, 68 percent of companies in the S&P 500 beat earnings expectations, and earnings per share grew 19.70 percent.
  - Though earnings and net income were less than in all quarters of last year, sales grew 9.19 percent year over year, slightly faster than in the previous two quarters.
  - Companies may have reached the limit of cost-cutting and may have to rely more on revenue growth.
  - Firms may have to battle higher commodity prices, which could impact margins going forward.
- Markets in developed foreign nations were lower in May but mostly shrugged off debt concerns.
  - The MSCI EAFE Index was down 2.95 percent in May for U.S. investors, who were sharply impacted by a strengthening U.S. dollar.
  - Returns for European investors, unaffected by the dollar, were down only 0.51 percent.
  - Year-to-date, the EAFE has gained 6.31 percent for U.S. investors.

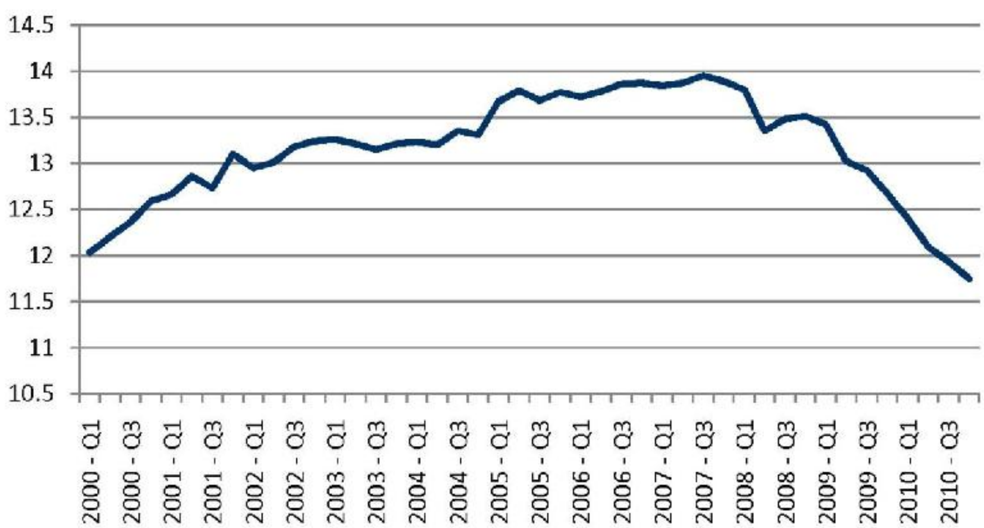
**Bonds add support for investors**

- Bond prices pushed higher in May, and rates fell.
  - The Treasury rally boosted the Barclays Capital Aggregate Bond Index 1.31 percent.
    - For the year, the index is up 3.02 percent.
  - Yields for the 10-year Treasury are now hovering above 3 percent, having closed May at 3.06 percent.
- Speculation that rates would rise has proven unfounded.
  - Yields for the 10-year Treasury have dropped more than 20 basis points this month, possibly signaling that the slowing recovery will hold inflation at bay.
  - The real test will come when quantitative easing (QE2) expires in June.
- Municipal bonds performed well, despite rhetoric regarding the potential for defaults.
  - Only 14 issuers have defaulted since January 1, totaling just $605 million in assets, compared with $3.23 billion last year and $7.69 billion in 2009.
  - Municipalities are balancing budgets and continuing to service debt and other obligations.

**The recovery hits a soft spot**

- Domestic equity markets were negative this month, in part as a result of some economic indicators that began to signal a weaker environment for growth.
    - Several regional manufacturing indices fell below expectations, including surveys out of the New York, Philadelphia, and Richmond areas.
    - April's ISM Non-Manufacturing Index caused a negative market reaction.
        - Businesses complained about higher commodity prices and weaker demand.
    - Manufacturing and business growth still appear to be increasing in absolute terms.
- Economists have been receiving mixed signals on the employment front.
    - A strong payrolls report in mid-May suggested an improving environment for workers.
    - But recent initial jobless claims data hinted that the arrival of spring may have coincided with a higher incidence of layoffs.
- On a positive note—the percentage of personal income that Americans must dedicate to paying down debt has steadily decreased (see Figure 1).

**Figure 1: U.S. Household Debt Ratio, 2000–2010**




*Source: Haver Analytics and the Federal Reserve Board*

- The housing market overall has continued to languish.
    - According to the most recent S&P/Case-Shiller Index, home prices fell 4.20 percent in the first quarter of 2011.
- A slowing of the economic recovery has continued as well.
    - But we have not seen a double-dip...yet.

**Our debt and beyond**

- We are faced with a rising debt burden and a government that needs to address this issue.
    - A decision by Congress to raise the debt ceiling has been widely debated.
    - It seems likely that the measure will eventually pass, given that 74 similar measures have passed since 1962.
    - Leaders may finally show prudence to satisfy concerned voters.

For now, it appears we have avoided the double-dip economic scenario that some had predicted, but we're certainly not out of the woods yet. The challenge is to spur organic economic growth and increase the number of jobs in the absence of government stimulus. Investors should monitor the situation in Washington and in the broader economy while bearing in mind that market performance doesn't always perfectly reflect domestic political and economic events.



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