

Economic & Market Review

~ April 2012 Investment Newsletter ~

Steven W. Lieberman, MBA, CFP® Summit Financial Resources, Inc. (973) 285-3637 slieberman@sfr1.com

Monthly Summary

U.S. economic growth slowed in the first quarter as annualized GDP growth dropped to 2.2% from 3.0% in the final quarter of 2011. Business investment was weak for the first time in over two years and government spending was a drag due to decreased military spending as well as state and local budget cuts. On the bright side, consumer spending accelerated to the strongest rate of growth since late 2010 and housing investment rose by 19.1%.

The overall theme in April was one of slowing growth and rising tensions in Europe. The labor market cooled with reduced job gains and higher jobless claims. Consumer spending also slowed from stronger levels earlier in the year. The ECB's Long-Term Refinancing Operation (the LTRO), which provided over €1 trillion of loans to European banks, lost steam. As a result, interest rates on Spanish and Italian government debt rose to concerning levels.

Despite challenges, investors were little moved and stock markets eased only modestly in April. Relatively robust earnings releases during the period, a surprise to many, certainly helped. Investors, with a "bad is good" mindset, also took solace in the belief that further economic weakness will spur monetary stimulus by the Federal Reserve.

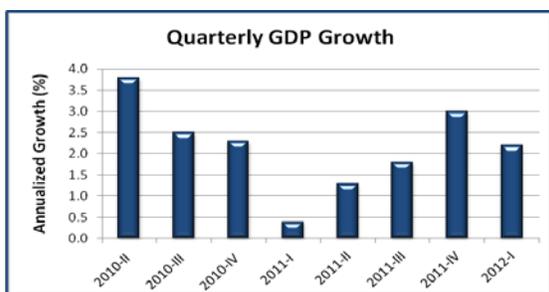
A number of near-term uncertainties will be on investors' minds in coming days. Europeans are increasingly concerned about the failure of austerity measures to bring about confidence and stability. The degree of unrest, evident in the recent fall of the Dutch government, will be further illustrated by the outcome of May 6 elections in Greece and France. A successful challenge to the austerity-promoting leadership of these countries may send a strong message that Europe's austerity solution needs modification. An additional message has been and will be sent by the ratings agencies. Following S&P's negative action on 16 Spanish banks at the end of April, Moody's is expected to unleash a wave of European bank downgrades in early May.

April's Economic Releases

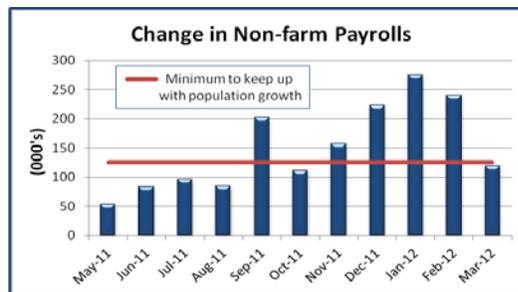
| General | Prior | Current |
|----------------|-----------------|-----------------|
| GDP growth | 3.0% (Q4) | 2.2% (Q1) |
| Trade balance | -\$52.5 B (Jan) | -\$46.0 B (Feb) |

| Employment | Prior | Current |
|----------------------------|---------------|----------------|
| Initial jobless claims | 389,000 | 388,000 |
| Continuing claims | 3.3 MM | 3.3 MM |
| Change in nonfarm payrolls | 240,000 (Feb) | 120,000 (Mar) |
| Unemployment rate | 8.3% (Feb) | 8.2% (Mar) |
| Average weekly hours | 34.6 (Feb) | 34.5 (Mar) |

| Consumer | Prior | Current |
|---|----------------|----------------|
| Consumer confidence index (Conf. Board) | 69.5 (Mar) | 69.2 (Apr) |
| Retail sales growth (YoY) | 10.2% (Feb) | 7.4% (Mar) |
| Change in consumer credit | \$18.6 B (Jan) | \$8.7 B (Feb) |



Data Source: U.S. Department of Commerce



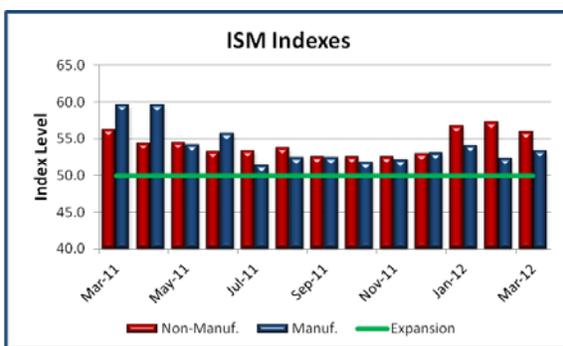
Data Source: U.S. Department of Labor



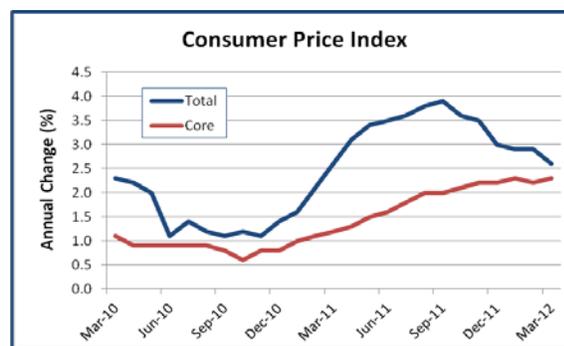
| Manufacturing & Service | Prior | Current |
|------------------------------------|--------------|----------------|
| ISM manufacturing index | 52.4 (Feb) | 53.4 (Mar) |
| ISM non-manufacturing index | 57.3 (Feb) | 56.0 (Mar) |
| Durable goods orders growth | 1.9% (Feb) | -4.2% (Mar) |
| Industrial production growth | 0.0% (Feb) | 0.0% (Mar) |
| Capacity utilization | 78.7% (Feb) | 78.6% (Mar) |

| Real Estate | Prior | Current |
|-------------------------------------|---------------|----------------|
| New home sales | 353,000 (Feb) | 328,000 (Mar) |
| Existing home sales | 4.6 MM (Feb) | 4.5 MM (Mar) |
| Case-Shiller home price index (YoY) | -3.9% (Jan) | -3.5% (Feb) |

| Inflation | Prior | Current |
|--|-----------------|-----------------|
| Consumer price index/Core (YoY growth) | 2.9%/2.2% (Feb) | 2.7%/2.3% (Mar) |
| Producer price index/Core (YoY growth) | 3.3%/3.0% (Feb) | 2.8%/2.9% (Mar) |



Data Source: Institute for Supply Management



Data Source: Bureau of Labor Statistics

Market Returns

The S&P 500 index lost 0.6% for the month and is now up 11.9% for the year. Developed international equity markets, as defined by the MSCI EAFE index, were down 2.0% for the month. The MSCI Emerging Markets index, consolidating from a strong rally this year, gave up 1.2% in April. Year-to-date, international developed and emerging markets returned 8.7% and 12.7%, respectively.

In the fixed income market, the Barclays US Aggregate index gained 1.1% for the month and the yield on the 10-year U.S. Treasury bond fell 28 basis points to end with a yield of 1.95%. The yield spike experienced in March has now completely reversed. For the year, the Barclays U.S. Aggregate has gained 1.4%. Credit spreads remained fairly constant for the month and various sub-sectors such as high yield, international, and municipal bonds performed comparably to the Aggregate index.

The Dow Jones UBS Commodity index lost 0.4% in April while the Dow Jones U.S. Real Estate index rose 2.6%.

Disclaimers

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