

# Economic & Market Review

~ May 2012 Investment Newsletter ~

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

## Monthly Summary

Tension in Europe set a decidedly negative tone for global markets in May. Disastrous Greek elections on May 6<sup>th</sup> kicked off fears of a Greek exit from the euro zone and the potential for contagion and fallout to other fragile European governments and their banks. Following fruitless negotiations, fragmented political parties in Greece failed to agree on a governing coalition. For now, the country is left in political limbo until new elections on June 17<sup>th</sup>. These elections, seen effectively as a Greek referendum on whether to stay with the euro and accept associated bailout terms, have the potential for highly polar, and extremely consequential, outcomes.

Although Europe dominated headlines, investor attention was also focused on evidence of slower domestic and global growth. U.S. economic growth in the first quarter was revised down to 1.9%. Recent regional factory surveys suggest manufacturing activity is slowing and labor market statistics have deteriorated markedly over the past three months. It now appears clear, as many postulated, that early-year employment gains were the result of unseasonably mild weather conditions rather than the economy shifting to a higher gear.

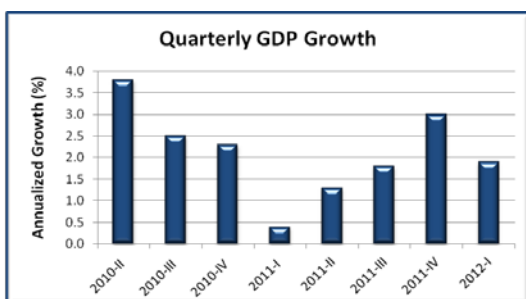
U.S. and European concerns were accompanied by challenges to key emerging market economies as well. China, still at risk of a hard landing, is looking for ways to boost growth. Brazil, the slowest growing BRIC country, continued to implement aggressive expansionary monetary and fiscal policies. And India, faced with the unfortunate confluence of both flagging growth and high inflation, has limited policy options. Meanwhile, the Indian rupee is Asia's worst performing currency and the country's problems are growing. In response to the tenuous global backdrop, investors shunned risk in favor of safe havens. The U.S. dollar gained strength, Treasury yields hit all time record lows, and world stock markets gave up about \$3.9 trillion during the month.

## May's Economic Releases

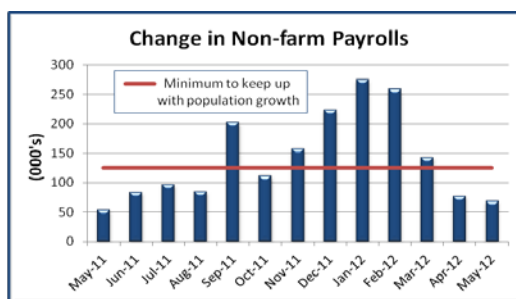
<b>General</b>	<b>Prior</b>	<b>Current</b>
GDP growth	3.0% (Q4)	1.9% (Q1)
Trade balance	-\$45.4 B (Feb)	-\$51.8 B (Mar)

<b>Employment</b>	<b>Prior</b>	<b>Current</b>
Initial jobless claims	373,000	383,000
Continuing claims	3.3 MM	3.2 MM
Change in nonfarm payrolls	77,000 (Apr)	69,000 (May)
Unemployment rate	8.1% (Apr)	8.2% (May)
Average weekly hours	34.5 (Apr)	34.4 (May)

<b>Consumer</b>	<b>Prior</b>	<b>Current</b>
Consumer confidence index (Conf. Board)	68.7 (Apr)	64.9 (May)
Retail sales growth (YoY)	6.4% (Mar)	3.2% (Apr)
Change in consumer credit	\$9.27 B (Feb)	\$21.36 B (Mar)



Data Source: U.S. Department of Commerce



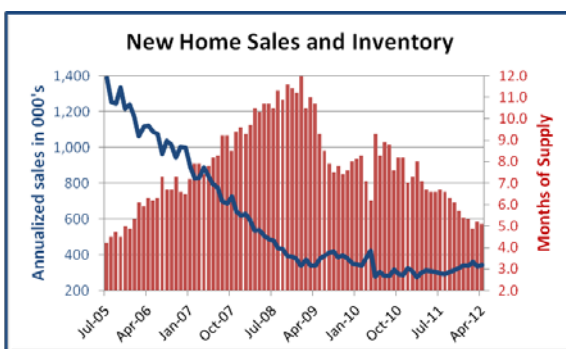
Data Source: U.S. Department of Labor



<b>Manufacturing &amp; Service</b>	<b>Prior</b>	<b>Current</b>
ISM manufacturing index	53.4 (Mar)	54.8 (Apr)
ISM non-manufacturing index	56.0 (Mar)	53.5 (Apr)
Durable goods orders growth	-3.7% (Mar)	0.2% (Apr)
Industrial production growth	-0.6% (Mar)	1.1% (Apr)
Capacity utilization	78.4% (Mar)	79.2% (Apr)

<b>Real Estate</b>	<b>Prior</b>	<b>Current</b>
New home sales	332,000 (Mar)	343,000 (Apr)
Existing home sales	4.5 MM (Mar)	4.6 MM (Apr)
Case-Shiller home price index (YoY)	-3.5% (Feb)	-2.6% (Mar)

<b>Inflation</b>	<b>Prior</b>	<b>Current</b>
Consumer price index/Core (YoY growth)	2.7%/2.3% (Mar)	2.3%/2.3% (Apr)
Producer price index/Core (YoY growth)	2.8%/2.9% (Mar)	1.9%/2.7% (Apr)



Data Source: U.S. Census Bureau



Data Source: U.S. Department of the Treasury

## Market Returns

The S&P 500 index lost 6.0% for the month and is now up 5.2% for the year. Developed international equity markets, as defined by the MSCI EAFE index, were down 11.5% in May and the MSCI Emerging Markets index gave up 11.2%. Year-to-date, international developed markets have lost 3.8% and emerging markets are now flat.

In the fixed income market, the Barclays US Aggregate index gained 0.9% for the month and the yield on the 10-year U.S. Treasury bond fell 36 basis points to end with a yield of 1.59% - a record low dating back to at least 1798! For the year, the Barclays U.S. Aggregate is up 2.3%. Credit spreads widened fairly significantly during the month on growth concerns and the debt crisis in Europe. The Barclays High Yield index lost 1.3% in the process. International bonds were also challenged in May, largely due to U.S. dollar strength, losing 2.3% for the period.

The Dow Jones UBS Commodity index lost 9.1% in May while the Dow Jones U.S. Real Estate index gave up 4.2%.

## Disclaimers

This market commentary was produced by Summit Financial Resources, Inc., 4 Campus Drive, Parsippany, NJ 07054. Tel: 973-285-3600, Fax: 973-285-3666. Sources of performance and economic statistics: Morningstar® and Bloomberg. Indices are unmanaged and cannot be invested into directly. Investment and market data contained in this newsletter is not an offer to sell or purchase any security or commodity. Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The MSCI Developed Markets and Emerging Markets Indexes were created by Morgan Stanley Capital International (MSCI) and designed to measure equity market performance in global developed and emerging markets, respectively. The Barclays Aggregate Bond Index is a market capitalization-weighted index comprised of government securities, mortgage-backed securities, asset-backed securities, corporate securities, and a small number of foreign bonds traded in the U.S. It is used to represent the universe of bonds in the domestic market. REITs, Real Estate Investment Trusts, are securities that invest in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, however, have liquidity constraints. Past performance does not guarantee future results. Information throughout this Newsletter, whether stock quotes, charts, articles, or any other statement(s) regarding markets or other financial information, are obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Neither we nor our information providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or for any delay or interruption in the transmission thereof to the reader. To unsubscribe from this investment newsletter please reply to this email with "unsubscribe" in the subject. Opinions expressed are subject to change without notice and are not intended as investment advice or a guarantee of future performance. Consult your financial professional before making any investment decision.

