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# Market Month: May 2012

## The Markets

Eurozoning out: Equities followed up on a disappointing April with a troubled May, the worst month for the Dow Industrials in two years and one that pushed the Global Dow into negative territory for the year. As problems in Europe mounted, more investors sought security in sovereign debt that seemed to offer at least some refuge from the difficulties of Greece and Spain. That demand pushed the yield on 10-year U.S. Treasury bonds to 1.63%--the lowest level seen in decades--while short-term German debt was auctioned with a coupon rate of zero.

Concern about the euro's stability pushed its value from \$1.32 at the beginning of the month to under \$1.25. As the dollar strengthened, oil prices plummeted to roughly \$87 a barrel from nearly \$105 at the end of April, and gold lost roughly 7% to end the month around \$1,563 an ounce.

Market/Index	2011 Close	Prior Month	As of 5/31	Month Change	YTD Change*
DJIA	12217.56	13213.63	12393.45	-6.21%	1.44%
Nasdaq	2605.15	3046.36	2827.34	-7.19%	8.53%
S&P 500	1257.60	1397.91	1310.33	-6.27%	4.19%
Russell 2000	740.92	816.87	761.82	-6.74%	2.82%
Global Dow	1801.60	1940.16	1742.87	-10.17%	-3.26%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.89%	1.95%	1.59%	-36 bps	-30 bps

\*Equities data reflect price changes, not total return.

## The Month in Review

- Popular frustration with eurozone austerity programs began hitting home in Europe with Socialist François Hollande's election as France's president and the rise of anti-austerity political parties in Greece. After those parties failed to form a coalition government, new elections were scheduled for June 17 as concern mounted that an anti-austerity government might default or try to renegotiate the terms of Greece's bailout. Eurozone leaders continued to insist they want to avoid a "Grexit" and some began raising the possibility of a jointly backed "eurobond." However, the uncertainty plus currency flows out of the country's banks led to increased worries about the impact of a default or exit on other countries.
- As Spanish banks received another credit rating downgrade, the government in Madrid was hit with new bailout demands from Spain's fourth-largest bank as well as one of its regional governments. Anxiety about the banks' stability and the government's resources to help them pushed the yield on the country's benchmark 10-year bond from 5.8% to 6.6% over the course of the month.
- Unemployment fell to 8.1%, according to the Bureau of Labor Statistics' May report. However, that was not necessarily good news, as the drop was largely the result of people leaving the workforce. The economy created only 115,000 new jobs; that's substantially lower than the 154,000 jobs added the previous month or the 252,000 monthly average between December and February.
- U.S. economic growth was even slower during the first quarter of 2012 than the Bureau of Economic Analysis's 2.2% initial estimate. The revised gross domestic product figure was 1.9%, substantially lower than the previous quarter's 3%. Consumer spending picked up 2.9% in Q1, but business spending was off.

- Home sales statistics were more encouraging than in recent months. Fueled by record low mortgage rates--lender Freddie Mac said the rate for a 30-year fixed loan hit 3.75%--sales of both new and existing homes jumped more than 3.3% in April, according to the Commerce Department and the National Association of Realtors®.
- Status changes: After one of the biggest tech IPOs on record, Facebook's stock price took a nosedive, hurt by both a massive trading snafu the day of the offering and the Securities and Exchange Commission's subsequent announcement that it would look into whether the offering's underwriters warned key clients (but not the public) at the last minute about the company's financial challenges. Meanwhile, J.P. Morgan Chase said trading in credit derivatives had cost the bank an estimated \$2 billion or more, and Hewlett-Packard announced it would cut 27,000 jobs over the next two years to compete more effectively in a changing tech environment.
- Manufacturing data continued to be somewhat mixed. The Commerce Department said durable goods orders increased for the second time in three months, industrial production was up 1.1%, and manufacturers in the Fed's New York region reported a strong rebound from the previous month. However, the Philly Fed's manufacturing survey turned negative for the first time in eight months.
- Inflation remained moderate as declines in energy costs helped offset increases in other consumer prices, leaving the Consumer Price Index flat for the month and at 2.3% for the past year. Meanwhile, the Bureau of Labor Statistics said wholesale prices fell 0.2%, putting the year-over-year wholesale inflation rate at 1.9%.
- Both consumer spending and personal incomes rose, according to the Bureau of Economic Analysis, while the Commerce Department said retail sales were up 0.1% for the month and 6.4% from the same time last year.

## Eye on the Month Ahead

Greece's June 17 elections could determine whether the country meets a June deadline for approval of new bailout-mandated budget cuts. That in turn could lead to a showdown over whether Greece remains part of the region's shared currency. The situation also will be a focus of separate summit gatherings of the EU and the G-20 nations in late June. And with QE2 scheduled to expire at month's end, markets will anxiously await the results of the June 20 Federal Open Market Committee (FOMC) meeting, hoping for fresh support for the economy.

Key dates and data releases: unemployment/payrolls, personal income/spending, construction spending, U.S. manufacturing (6/1); factory orders (6/4); U.S. services sector (6/5); labor productivity/costs, Fed "beige book" report (6/6); balance of trade (6/6); wholesale prices, retail sales, business inventories (6/13); consumer prices (6/14); industrial production, Empire State manufacturing survey, international capital flows, quadruple witching options expiration (6/15); Greek elections (6/17); home builders' survey (6/18); housing starts (6/19); Federal Open Market Committee meeting (6/20); home resales, Philadelphia Fed manufacturing survey (6/21); new home sales (6/25); home prices (6/26); durable goods orders (6/27); final Q1 gross domestic product (6/28); personal income/spending (6/29).

*Data sources for non-equities performance: U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold, NY close); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. Equities data reflects price changes, not total return.*

*The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.*

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