Advisor Economic Update- October 2012

Domestic equities continued their rise in September, with the Dow Jones Industrial Average (Dow), Standard & Poor's 500 (S & P 500) and Nasdaq Composite up 2.64%, 2.43%, and 1.60% respectively. There was also positive growth for the third quarter, with increases of 4.33%, 5.76%, and 6.17%, respectively.

Smaller companies, as measured by the Russell 2000 index, were up 3.12% and international stocks, as measured by the Dow Jones World Index (ex-US) were up 3.15% for the month.

US Treasury bond values decreased and yields moved slightly higher with the 10-year Treasury yield at 1.64% at the end of September, compared to 1.56% the previous month. Early in September, the Federal Reserve Board announced "QE3", where they will purchase mortgages in an effort to support the housing market and the economy. This was generally well received by equity markets and led to lower bond values.

Estimated Gross Domestic Product (GDP) growth for the second quarter was revised down to 1.3%, from previous estimates at 1.7%. This is due in part to drought across the country, and shrinking state and local government spending. At the same time, after-tax corporate profits as a percentage of GDP are rising.
Ultimately, we expect corporate earnings to drive prices. Current estimates are that 2012 earnings will grow at about 6% over 2011 earnings. Most of this growth is from the first half of 2012, and many corporations are expecting lower earnings for the second half, due in part to reduced global demand. It is also important to note that the positive earnings are in the context of low growth and high unemployment. Looking ahead, earnings could receive a boost from lower energy prices and/or lower unemployment.

Europe is still in the midst of a financial crisis. Recent worries over a default in Spain have been alleviated somewhat, as many analysts expect them to request a bailout. Unemployment numbers in Spain are reported at near 25%, though many agree that there is a large underground economy that is unaccounted for. A bailout would prevent default and underscore Europe's commitment to the union.

Recent economic data on manufacturing was higher than expected and indicative of economic expansion. This, combined with strong corporate balance sheets that are flush with cash, bodes well for future growth. However, fear is keeping many corporations from significant capital spending and/or expansion. Some of this is political and relates to uncertainty surrounding the fiscal cliff, but much of it relates to lack of confidence in the U.S. economy. We are hopeful that much of the uncertainty will dissipate after the election, and that confidence will slowly return.

Advisor Economic Update- December, 2012

As we approach the end of the year and the deadline for the “fiscal cliff”, equities continue to bounce around and ended the month mixed. The Dow Jones Industrial Average (Dow) was down about 6/10ths of 1%, while the Standard & Poor’s 500 (S & P 500) and Nasdaq Composite were up about 3/10ths of 1% and 1.1% respectively.

Smaller companies, as measured by the Russell 2000 index, were up about ½ of 1% and international stocks, as measured by the Dow Jones World Index (ex-US) were up about 1.5% for the month.

US Treasury bond values increased slightly and yields moved slightly lower with the 10-year Treasury yield at 1.6% at the end of November, compared to 1.68% the previous month.

Growth estimates for the third quarter 2012 are expected to be revised higher, from 2% to 2.7%, according to the U.S. Government, though analysts think some of this is due to increasing inventories, and should be discounted somewhat. Fourth quarter growth estimates are generally lower (but positive) due in part to the slowdown caused by hurricane Sandy. On the positive side, the damage from Sandy will have to be repaired, and this bodes well for future growth.

Christmas spending and job creation/growth will be the focus in the coming weeks, as will progress reports on the fiscal cliff. Some of the concern over domestic growth has led analysts to turn their attention to the more risky global and emerging market sectors, some of which have high projected growth rates but also greater geopolitical risk. We have avoided most global equities based on the risk, but will review and add to these allocations if/when we see value.

So far, equity returns are relatively strong for the year, given the global slowdown and political issues. Our base expectation is that U.S. Government will resolve the fiscal cliff, either through compromise or kicking it forward to later in 2013, creating only a minor drag on Gross Domestic Product, which should remain positive due to consumer and corporate spending. Of course, this is a base expectation, and there are many variables. We anxiously await the resolution (as are all of us) and will monitor and adjust portfolios as needed in the interim.