Monthly Market Commentary

Fear grew in May as bad news out of Europe and China continued to dominate the markets. Greece remained the epicenter of European problems as Greek election results have made it difficult to form a new government. Bank runs in Greece and rumors of an exit from the eurozone have plastered headlines as people speculate the possibility and implications of such an event. On a lighter note, investors breathed a slight sigh of relief for the eurozone, which managed to eke out a very slight GDP growth in the first quarter of 2012 after contracting in the fourth quarter of 2011, avoiding the technical indication of a recession (back-to-back quarters of negative GDP growth).

As China's growth rate continued to soften because of manufacturing and export demand weakness in tandem with Europe's slowdown, China cut interest rates for the first time since 2008 with the hopes of spurring more growth. Barring a complete financial collapse, there should be minimal impact on the U.S. economy because the U.S. exports next to nothing to Europe (and even less to China), while Chinese exports to Europe represent a significant portion of China's GDP.

Employment: Markets tanked as a result of a disappointing employment report, with only a meager 69,000 jobs added in May. Worse, the previous two months of unemployment data were revised downward by a total of 49,000 jobs. Despite these setbacks, Morningstar economists still expect monthly employment growth to average about 195,000 jobs per month, with better housing employment and continued 2% or so GDP growth to drive that employment. The unemployment rate rose slightly to 8.2%.

Manufacturing: Despite a tepid manufacturing sector outside of the U.S., domestic manufacturing data mostly came in above expectations in April. Almost every category showed strength, led by utilities, which rebounded nicely as weather returned to more normal-conditions. While autos have been a huge help in the past couple of months, April showed a broadening of the improvement in manufacturing across all categories. Investors should be aware that while the month-to-month numbers looked positive, the year-over-year growth rate remained flat, indicating just steady, forward progress as opposed to a boom-or-bust scenario.

Housing: Seasonally adjusted home prices increased 1.1% from the fourth quarter 2011 to the first quarter 2012, the largest increase since the third quarter 2009. Year-over-year, prices fell by 1.9%, which was much better than the 4.6% year-over-year decline in the first quarter of 2011. As home prices stabilize, this will likely help the difficult appraisal process that had prevented thousands of homes from closing. April's pending home sales fell from March but was still up 14.4% year-over year, marking the 12th straight month of positive growth. Morningstar economists believe that the U.S. housing market has far more room for upside than downside at this point in the business cycle.

Consumers: Consumer spending continued to increase on both a month-to-month and year-over-year basis despite the apparent volatility in the employment market. Some of the reasons include greater availability of credit, falling gasoline prices, and a substantially lower inflation rate. However, in the face of weakening employment as businesses hit the pause button on hiring, there is little chance that consumption growth will accelerate.

Market: The U.S. stock market suffered its worst day of the year on June 1, 2012; the Standard & Poor's index fell by 2.5% after the release of a surprisingly weak employment report. Fears of the impact on the U.S. because of the slowing global economy saw a flight to safety away from stocks and into Treasury bonds.