Monthly Market Commentary

- Despite unsettling events around the globe, the U.S. economy remains on its expansionary track.
- Even the employment picture is beginning to brighten.
- Unfortunately, the housing market continues to struggle.

The market has had its ups and downs in March, but the overall atmosphere has been optimistic in light of less negative news from Japan and the Middle East. On the not-so-optimistic side, however, bad news on the European debt crisis (Portugal in particular) may signal some dark clouds looming ahead.

Employment: After a year of almost no progress, employment statistics have finally begun to show some improvement. Current unemployment claims are in the 300,000–350,000 range, approximately half of the 674,000 we've seen in the early months of 2009. Since 20%–25% of the jobs lost during the recession were in the construction sector, significant improvement in unemployment numbers may not occur until both the homebuilding and construction industries recover. Still, in light of these recent positive numbers, next week's jobs report is an eagerly awaited piece of news.

Consumer spending: Other statistics to be released next week include personal income and spending data for the first quarter of 2011, which may provide insight into whether consumer confidence is back or still waning. Consumption numbers are crucial data points for quarterly GDP forecasts, which for now appear to be in the 2.0%–4.0% range. With higher inflation rates and volatile import numbers, Morningstar analysts estimate that first-quarter GDP growth may be on the lower side of this range. However, companies will start reporting corporate earnings next month, significantly impacting the market and economic forecasts.

Tech sector: Excellent news from the tech sector fueled the market in recent weeks, with some technology companies reporting revenue growth as high as 25% and raising their dividends. In the improving economic environment, businesses now have more money to invest in new technologies, such as cloud computing, which in turn may fuel future growth.

Housing market: Unfortunately, housing data still does not indicate any significant improvement. New and existing home sales in February were dismal; only 250,000 units were sold, a new record low dating back to the 1960s. This is in sharp contradiction with realtors' and builders' optimism about the spring selling season. Even when taking seasonal factors into account, such as bad weather and low temperatures, the outlook remains bleak.

Economic growth: The GDP number for the fourth quarter of 2010 has been revised for a third and final time, from 3.3% to 2.8% and now back to 3.1%. Increasing consumer confidence was reflected in strong spending on consumer durables, with modest growth in non-durable goods and consumer services displaying the smallest growth. The overall message is clear: consumers are back, increasingly confident and willing to spend.

The tale of two recoveries (rich versus not so rich): As worrisome as this news may be, it is by now clear that so far in the recovery higher earners have fared much better than their counterparts (especially those with less education). The latter continue to face double-digit unemployment and have difficulties confronting the higher food and energy costs. Further pain in the lower income brackets may create a ripple effect and stall overall economic growth.

Quarter-end insights: Although this year started on a bad note, Morningstar economists are optimistic and predict that real GDP growth of 3.5%–4.0% may still be possible if inflation doesn't get out of control. However, this is a big "if." Judging by the already-rising fuel and food prices, inflation may reach 3% in no time (the annualized increase in the Consumer Price Index over the last six months is an even more frightening 3.9%). Looking forward, consumer spending remains key, as well as business investing. These may well be the two most important determinants of the recovery for the rest of the year.