

Monthly Market Commentary

The market's primary focus during April was corporate earnings, which were generally positive. The technology and manufacturing sectors produced exceptional results while consumer spending, inflation, manufacturing, and the Chinese economy continued on their strong upward trajectories.

Earnings: The technology sector showed promise as both Apple and Intel reported stellar results. Besides robust tech earnings, results in the manufacturing sector were also encouraging. Organic growth (versus acquisition-driven growth), auto-related data, and capital goods were positive. Earnings from the banking sector however, weren't as strong. New loan growth at many firms including J.P. Morgan Chase was almost non-existent. Overall, J.P. Morgan Chase revenues declined 9% while profits increased about 67%. Rising commodity prices were the main reason for mixed earnings in consumer-oriented firms. At McDonald's, revenue increased but the stock fell about 1.9%.

Housing: According to the federal government report, home prices were down 1.6% from January to February. Existing home sales increased 3.7%, reaching the 5.1 million unit mark. During the housing boom in 2005, the annualized number of existing home sales was as high as 7.4 million units. Outside the couple of odd months near the expiration of the two housing credits, the lowest sales number was about 4.5 million units.

Inflation: Inflation reports from around the world were higher than expected. Year-over-year inflation accelerated to 5.4% in China in March 2011. In the euro zone, month-to-month inflation (annualized) accelerated to 2.7% in March up from 2.4% in February. Inflation continues to accelerate around the world despite attempts by central bankers worldwide to tighten rates and boost reserve requirements. During March, the U.S. producer price index and the consumer price index moved up 0.7% and 0.5%, respectively.

GDP: The recent GDP report suggested a growth rate of 1.8%, in line with expectations but well below the fourth quarter number of 3.1%. This slowing was largely due to shifts in government defense spending and weather-related construction spending. The U.S. consumer spending growth came in at 2.7%, higher than the expected growth of 1% to 2%. Business investment spending grew 11% during the first quarter, while government spending (which comprises about 20% of GDP) fell 5%.

Auto sales: Motor vehicle sales typically tend to be good indicators of consumer spending. The recent motor vehicle sales report indicated no change in the mix between domestic and import brands, which appears to be a sign that Japanese supply issues weren't holding back sales.

Unemployment: The recent unemployment report revealed a 43,000 surge with claims for unemployment rising to 474,000, the highest level in eight months. The report suggested that the adjustment timing for a spring break in New York State followed by a new emergency benefit plan in Oregon were the main reasons for this surge.

Employment: Employers added 244,000 jobs in April, which came in much higher than analysts' estimates for the month. Goods-producing and service-providing sectors experienced the most job growth while government jobs posted a decline. On a year-over-year basis, overall payroll job growth increased 1%.

According to Morningstar economists, auto sales figures, employment, production and manufacturing statistics, will remain key indicators of future economic health in the weeks ahead.