Monthly Market Commentary

- Since its late April high, the U.S. stock market has declined approximately 8% reflecting a deceleration in economic growth and lingering concerns over Greece's debt.
- Though there are always risks, COMPASS believes the U.S. stock market is nearing the end of its current correction and is poised for an upturn as economic growth reaccelerates in the second half of this year.

The month of May saw a barrage of disappointing economic reports one after the other. As the end of the second quarter approaches, long-term interest rates have fallen while international fears have risen. Earlier this month, Greece's credit rating was downgraded once again because of ongoing concerns regarding austerity measures and debt rescheduling possibilities. Japanese auto production has also plunged 60% since the earthquake and tsunami—731,000 units were produced in April 2010, while only 292,000 units were produced in April 2011.

GDP: The first-quarter GDP remained unrevised at 1.8%, despite expectations of an upward revision because of strong retail sales growth in February. While several retail categories were revised upward, the combination of gasoline sales, auto sales, and utility usage being revised downwards roughly offsets the retail revisions. On a brighter note, falling gasoline and utility sales means consumers are driving less as a result of higher prices rather than cutting back on other categories. In the months ahead, this could mean lesser oil imports, which in turn could potentially aid GDP growth. National gasoline prices dropped to $3.78 a gallon recently, down from a high of $3.98 but still dangerously higher than last year's $2.78 a gallon.

Employment: Employment data was disappointing for the month of May. Businesses performed worse than expected as consumers pulled back due to rising gas prices and commodity price increases. Employment grew by a mere 54,000 compared with 241,000 during April, representing an annualized employment growth of 0.5%. Retail and leisure payroll categories accounted for the majority of this significant decline; retail added 78,000 jobs in April but only a dismal 3,000 in May, while leisure went from 30,000 jobs in April to negative 6,000 in May.

Unemployment: The unemployment rate crawled up slightly to 9.1% from 9.0%. Initial jobless claims fell 6,000 during the last week in May to 422,000. The four-week average of 425,000 compared well to the month-ago level of 432,250.

Housing: Housing prices continued to erode as the national purchasing managers' reports for manufacturers showed a major decline. The pending home sales report was a disappointment. Contract signings in April fell by 12% compared with March and fell 27% from last year's tax-credit-fueled period. One of the causes for this decline was severe weather conditions: The United States experienced the heaviest April precipitation level in 20 years. Tight lending remained another prevailing factor, dragging the numbers lower.

Manufacturing: The ISM Manufacturing Index dropped sharply, indicating that the manufacturing sector is still growing, but at a significantly slower pace compared with April. Morningstar's economists do not think that this was something unexpected. The Chicago regional report (announced the day before the ISM numbers were released) also gave strong indication of slowing growth.

Retail sales: The International Council of Shopping Centers report revealed that monthly retail sales increased 5.3% as luxury goods stores continued to display stellar results. The "Tale of Two Recoveries" continued, as high-end retailers such as Saks and Tiffany raised price points and outperformed the market respectively while on the other end of the spectrum, companies like Gap and Wal-mart continued to struggle. Morningstar economists expect real wages, measured by the Personal Consumption Expenditure Price Index, to move into negative territory for May; the number has been steadily declining since February.