

# Market Update

## April 2010 Review

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### Mostly Sunny or Partly Cloudy? It Depends How You Look at it...

As the cold winter months became a distant memory, the economy helped us envision a warm and sunny spring. Economic data was primarily positive, markets were strong and the outlook remained mostly upbeat. However, even on the sunniest of days, there is always the chance of clouds rolling in.

With regard to economic data, April was a good month overall, which was reflected as positive gains in the capital markets. The U.S. economy, as measured by Gross Domestic Product ("GDP"), expanded at a 3.2% annual rate in the first quarter following a gain of 5.6% in the fourth quarter of 2009. The back-to-back gains marked the economy's best performance since the second half of 2003. The increase in first quarter GDP primarily reflected noteworthy improvements in business activity and consumer spending. Further, inflation has remained at bay, with CPI at 2.4% year-over-year through March.

On the production side, the U.S. manufacturing sector is trending upward, as the rate of new factory orders continues to be strong. The Institute for Supply Management ("ISM") factory index rose to 60.4, exceeding estimates and growing at its fastest pace since June of 2004.

The consumer seems to be turning the corner as well. The Conference Board Consumer Confidence index rose for the second straight month to 57.9 (up from 52.5 in March) and the Commerce Department reported that consumer spending was up 0.6% in March, which was the largest amount in five months. Retail sales were up 1.6% (though a typical post-recession bounce-back is usually closer to 3.5% with much less help from the Fed and Treasury). The stock market continues to anticipate a consumer-led recovery as well, as witnessed by the S&P consumer discretionary sector returns in April of 6.1%, which was the highest of any sector. Moreover, year-to-date through April 30th, the consumer discretionary sector (+17.2%) is second only to the industrial sector (+17.8%).

Finally, the housing market showed signs of life. New home sales experienced the second largest gain on record with a 26.9% increase (the first quarter still experienced a 14% year-over-year drop) and existing home sales were up 6.8%. The expiring tax credit is likely responsible for a good share of this gain.

The improving trends on the production and consumer sides of the economy were reflected in the stock market. The S&P 500 tacked on 1.6% in April and the Dow Jones Industrials Average added a tad less at 1.5%. Impressively, 85% of companies in the S&P 500 that have reported earnings beat their consensus estimates. Further, we continued to see small and mid-cap names outperform large caps, as investors looked to satiate their risky appetites.

	April	Latest Quarter	YTD
DJIA	1.5%	10.1%	6.4%
S&P 500	1.6%	11.1%	7.1%
NASDAQ	2.6%	14.6%	8.5%
MSCI EAFE	-1.7%	3.8%	-0.8%
Barclays Aggregate	1.0%	1.3%	2.8%
Barclays Corp High Yield	2.3%	5.7%	7.1%

On the bond side, domestic fixed income markets also experienced strong returns for the month, with the Barclays Capital U.S. Aggregate Index returning 1.0% and the Barclays Capital Long U.S. Government/Credit Index adding 3.0%. Despite the fears of rising rates, investors continue to pour

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assets into taxable bonds. Investors' risky appetites were also noticeable in the fixed income arena, as the Barclays Capital U.S. Corporate High Yield Index returned 2.3% in the month of April, outpacing most other segments of the bond market. This brings the year-to-date performance to 7.1% and with this increase, the High Yield sector is now trading at par for the first time in three years.

Despite the good news from the economy and the markets, the month of April had its share of cloudy days as well.

International developed markets fell 1.7% for the month, as measured by the MSCI EAFE Index. The debt crisis in Greece stayed atop investors' minds and the recent downgrades to the debt of both Portugal and Spain by Standard and Poor's only added to investor concerns. On May 3rd, Euro-region finance ministers agreed to a 110 billion-euro (\$146 billion) rescue package for Greece to help prevent a default and stop the worst crisis in the Euro's 11-year history from spreading. Combined, European and American banks have \$1.7 trillion of debt exposure to Portugal, Ireland, Greece and Spain, with over half of that among German and French lenders. Is there any wonder why the bail-out was driven by Germany and France?

The U.S. also faced its share of concerns. The massive oil spill on the Gulf Coast continues to leak thousands of gallons of crude oil into the Gulf of Mexico and its impact on the environment is likely to be devastating. Further, the SEC lodged a complaint against Goldman Sachs which rattled investors, and the Senate Financial Reform bill, which would extend oversight to a wider range of financial institutions and activities, remained stalled in the Senate.

However, the darkest and most ominous storm cloud that continues to linger over the economy is the weakened job market. Although initial and continuing jobless claims both fell a bit in March, there are still 15 million unemployed and the unemployment rate remains at an elevated 9.7%. Factor in underemployment, and the rate is in the mid to high teens. At first glance, the nonfarm payroll employment increase of 162,000 in March looked to be a bright spot, but upon closer inspection the number is actually quite disappointing. The number is far below economists' estimates of 190,000, and almost 30% of the gain (or 48,000) are workers hired by the Federal Government for Census 2010. The Commerce Department also indicated that personal incomes increased only 0.3% (following a miniscule 0.1% increase in February and a 0.4% advance in January), raising new concerns about lackluster income growth.

Yes, April was sunny for much of the month. The economic data was upbeat and markets reacted favorably, but the job market cloud is hovering a bit too close for comfort. Consumer spending accounts for 70% of economic activity and drives the U.S. economy. So, unless businesses begin to accelerate hiring, households' savings will start to decrease and spending will slow. If that's the case, we may be in for a long, rainy summer.

## *Definitions & Disclosures:*

**Consumer Price Index (CPI)** – The CPI is a cost of living index, released monthly, and published by the U.S. Bureau of Labor Statistics within the Department of Labor. It measures prices of a fixed basket of goods hypothetically bought by a typical consumer. This basket of goods includes food, shelter, utilities, transportation, medical care, clothing, entertainment, and other items.

**Gross Domestic Product (GDP)** is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital Long U.S. Government/Credit Index is the long component of the Lehman US Government/Credit Index, a widely recognized index that features a blend of US Treasury, government-sponsored (U.S. Agency and supranational), mortgage, and corporate securities limited to a maturity of more than ten years.