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PARTNERS GROUP

The Partners Group Presents:

MONTHLY ECONOMIC UPDATE

May 2011

MONTHLY QUOTE

“When we treat man as he is, we make him worse than he is; when we treat him as if he already were what he potentially could be, we make him what he should be.”

– Johann Wolfgang von Goethe

MONTHLY TIP

Multiple streams of income help to increase your financial stability. Do yourself a favor and explore ways to make more - from your work, your hobbies and your financial decisions.

MONTHLY RIDDLE

It has a back and four legs, yet it can't run. It has two arms, but no hands. You don't keep it as a pet, but you likely have one in your home right now. What is it?

Last month's riddle:

You use it between your head and your toes; the more it works, the

THE MONTH IN BRIEF

The market took most of its cues from earnings in April, and earnings impressed. As the month wrapped up, 63% of the S&P 500 had reported 1Q results and 73% of those firms had beaten earnings estimates. The S&P 500 index climbed 2.85% in April. Home prices all but double-dipped; home sales improved (they seemingly couldn't get any worse). Key indicators showed trends of economic expansion and renewed consumer spending continuing. Oil, gold, silver and gasoline prices repeatedly made headlines.¹

DOMESTIC ECONOMIC HEALTH

The economy was growing under price pressures. Consumers were spending more largely because they had to pay more for gas and food (gas prices alone jumped 5.7% in March). Commerce Department data showed a 0.6% increase in personal spending for March on the heels of a revised 0.9% gain for February. Disposable incomes were up just 0.1% in March, and the higher gas and food prices were akin to short-term taxes. The federal government's Consumer Price Index measured inflation at 0.5% for March, with core CPI at a milder 0.1%; the Producer Price Index was up 0.7% for the month and 5.8% across 12 months.^{2,3,4}

Few things depress consumers like rising gas prices and high unemployment, so the results of the twin consumer confidence surveys were surprising. The Conference Board's April poll improved to 65.4 and the University of Michigan's final April survey came in 69.8, better than March's final 67.5 reading. Then again, the unemployment rate was down to 8.4% in March – a full percentage point below where it had been in November. That factor and the payroll tax holiday helped the American consumer spend more freely in the face of inflation.^{5,6}

Expansion in the manufacturing and service sectors had moderated a bit: the Institute for Supply Management's April manufacturing survey showed PMI at 60.4, down from March's 61.2; its March service sector index saw a bigger retreat, going from 59.7 to 57.3. Still, the surveys pointed to growth in both sectors. The federal government said factory output rose by 0.7% in March, and it also said that total retail sales were up 0.4% in that month.^{3,7,8,9}

Standard & Poor's caused a bit of a shock wave last month when it reduced the credit outlook for the U.S. from “stable” to “negative”. America's rating over at Moody's Investors Service remained “stable”.¹⁰

GLOBAL ECONOMIC HEALTH

thinner it grows. What is it?

Last month's answer:
Soap.

China's key PMI slipped half a percent in April to 52.9; India's advanced a tenth of a percent to 58.0. Both of these manufacturing sector indices have now shown expansion for more than two years. South Korea's PMI touched its lowest level in six months in April. China's inflation rate reached a three-year peak in April even with interest rates rising and government directives to keep capital ratios high at banks. China's GDP is projected at 9.5% for 2011.¹¹

Factories kept humming in Europe, particularly in Northern Europe. The Markit Eurozone PMI improved to 58.0 in April, close to the almost-11-year high of 59.0 notched in February; sector expansion in Germany and France amounted to the driver. The European Central Bank took the lead among major world banks in raising benchmark interest rates in April – the ECB raised its key rate to 1.25% from an all-time low of 1.0 adopted in response to the global recession.¹²

WORLD MARKETS

Global benchmarks produced a mixed bag of gains and losses in April. According to Morningstar, Germany's DAX had a banner month: +5.98%. France's CAC 40 went +2.95%, and England's FTSE 100 went +2.80%. Moving away from northern Europe, things were slightly less rosy. Japan's Nikkei 225 advanced 0.97%; Hong Kong's Hang Seng gained 0.82%; China's Shanghai Composite retreated 0.57%; Australia's All Ordinaries lost 0.60%; Canada's TSX Composite fell 1.21%; India's Sensex slipped 1.59%. The MSCI World Index rose 4.02% in U.S. dollar terms; the MSCI Emerging Markets advanced 2.83%.^{13,14}

COMMODITIES MARKETS

Silver prices zoomed north 28.2% in April, and gold didn't do too badly either with an 8.1% monthly gain. In fact, April 2011 was gold's best month since November 2009. Gold finished April at \$1,556.00 on the COMEX. A weak dollar helped, with the U.S. Dollar Index slipping 3.9% for the month.^{15,16}

Like gold, oil has not had a down month since last August. In the last eight months, crude prices have soared 58.4%; last month alone, they advanced 6.8% to settle at \$113.93 a barrel on April 29. April was also a superb month for RBOB gasoline futures, which gained 11.5%.^{15,17}

How did the key crop futures perform in April? Coffee went +13.5%, cocoa +13.1%, corn +9.1%, soybeans -1.2%, sugar -17.9% and cotton -21.1%. The Reuters-Jefferies CRB index (which symbolizes the broad commodities market to many U.S. investors) gained 3.0% in April; it closed the month at its highest level since September 2008.^{15,17}

REAL ESTATE

The double dip happened – more or less. Last month brought us the February edition of the 20-city S&P/Case-Shiller home price index – and the broad index came in at just 0.01% above its April 2009 low.¹⁸

In better news, the Census Bureau reported an 11.1% improvement in new home purchases for March. The National Association of Realtors noted a 3.7% rise in existing home sales for that month, plus a 5.1% jump in pending home sales. (Scrutiny unearthed interesting details in the NAR data: distressed properties such as short sales and foreclosures accounted for 40% of March existing home sales, and 35% of the homes were bought wholly with cash – an all-time record.)^{19,20}

Mortgage rates declined across the board last month. At the end of March, Freddie Mac's Primary Mortgage Market survey had the 30-year FRM averaging 4.86%; in the April 28 survey, the average rate was 4.78%. Average rates for 15-year FRMs had descended from 4.09% to 3.97% during that period. On April 28, Freddie Mac respectively estimated the average interest rates on 5-year ARMs and 1-year ARMs at 3.51% and 3.15%.²¹

LOOKING BACK...LOOKING FORWARD

The Dow Jones Industrial Average ended April at 12,810.54 – a close unseen since May 2008. Meanwhile, the CBOE VIX dropped 16.74% in April - its third straight monthly decline.¹

| % CHANGE | Y-T-D | 1-MO CHG | 1-YR CHG | 10-YR AVG |
|------------|-----------|----------|-----------|------------|
| DJIA | +10.65 | +3.98 | +14.71 | +1.93 |
| NASDAQ | +8.32 | +3.32 | +14.40 | +3.58 |
| S&P 500 | +8.43 | +2.85 | +12.99 | +0.91 |
| REAL YIELD | 4/29 RATE | 1 YR AGO | 5 YRS AGO | 10 YRS AGO |
| 10 YR TIPS | 0.75% | 1.31% | 2.39% | 3.52% |

Sources: online.wsj.com, bigcharts.com, treasury.gov, treasurydirect.gov - 4/29/11^{1,22,23,24}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

The old “sell in May, go away” adage may be refuted this month. We have a mood that is decidedly bullish and a stock market that has recently ignored historical norms. The Fed will wrap up QE2 in June, but it may opt for some kind of sequel. The Fed has also indicated that interest rates will remain exceptionally low for the near term; even with the ECB’s recent move to raise its key interest rate by 25 basis points, a round of global tightening doesn’t seem imminent. Some analysts think stocks are overbought, yet there is prevalent optimism to counter that feeling. As we leave this earnings season behind, the focus again shifts to domestic economic indicators. The question now is whether the headline indicators (the jobless rate, existing home sales, personal spending, consumer and wholesale inflation) will be positive enough to send the market higher in May and June.

UPCOMING ECONOMIC RELEASES: For the rest of May, the schedule looks like this: April’s ISM service sector index (5/4), the April unemployment report (5/6), March wholesale inventories (5/10), April PPI, April retail sales and March business inventories (5/12), April CPI plus the initial University of Michigan May consumer sentiment poll (5/13), April building permits, housing starts and industrial output (5/17), April existing home sales and the Conference Board’s LEI index (5/19), April new home sales (5/24), April durable goods orders (5/25), the second estimate of 1Q GDP (5/26), April consumer spending, April pending home sales and the final University of Michigan May consumer sentiment survey (5/27), and finally the March Case-Shiller home price index and the Conference Board’s May assessment of consumer confidence (5/31).

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from the Stock Exchange of Hong Kong. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The S&P/ASX All Ordinaries Index represents the 500 largest companies in the Australian equities market. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. BSE Sensex or Bombay Stock Exchange Sensitivity Index is a value-weighted index composed of 30 stocks that started January 1, 1986. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance data is historical and not indicative of future results. Market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

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