Monthly Commentary

May 19, 2011

"Good investors gather information, put that information into current and historical context, then make sound decisions."

Equity markets continue to enjoy their favorable environment for the year, settling into a trading range that is allowing even the turtles to catch up with the hares. Only a handful of equity sectors are still in the red year-to-date and they are also settled into trading ranges, building bases, and perhaps readying for their own advances later in the year. Domestically, the S&P 500 Index is now up +7.39%, the S&P MidCap 400 Index is up +9.96%, and the Russell 2000 Small Cap Index is up +6.77%. All three of these indexes are trading very close to where they stood three months ago.

On the international front, there is a greater spread of performances. Europe is leading the way, with the S&P Europe 350 now up by +9.27%. The broader MSCI EAFE Index, which measures 22 developed equity markets outside of the U.S. and Canada, primarily located in Europe, Australia, and the Far East, is up +4.60% for the year. One of the largest components of the EAFE Index is Japan, which is still down -6.36% year-to-date. Latin American equity markets are also struggling in 2011, with the S&P Latin America 40 Index down -5.69%. The S&P Latin America 40 Index consists of 40 large cap companies, 16 of which are from Brazil, 11 from Chile, 10 from Mexico, and 3 from Peru. The broader MSCI Emerging Markets Index, which consists of equity market indexes representing 26 emerging economies, including seven Latin American countries, is up +0.12% year-to-date.

Surprisingly, the dark horse sector for 2011 is healthcare, currently occupying the top of the 2011 leader board. It has been a number of years since this highly regulated industrial sector has performed so well. The Dow Jones US Select Healthcare Providers Index is up +25.00%. The Dow Jones Select Medical Equipment Index is up +17.36%, and Dow Jones US Selector Pharmaceuticals Index is up +15.06%. These are primarily large and giant cap companies and it takes an enormous amount of capital to move these stocks this far. One can only surmise that institutional investors have finally decided to increase their holdings of this sector back to market weightings, providing a lift that many of these companies have not seen in decades.

Real estate securities continue to hold their favorable position. The Dow Jones U.S. Real Estate Index is up +11.15% year-to-date. Commodity-related equities have cooled down in the last month, as oil prices backed off to the $100 level. The Dow Jones US Select Oil Equipment and Services Index is up +9.03%, and the Dow Jones U.S. Oil & Gas Index is up +10.02%. Silver and gold prices pulled back as well. Year-to-date, the London Silver Fix Price is up 12.93% and the London Gold PM Fix is up +6.47%.

While equities were settling into trading ranges bonds market sails caught the wind and are now back to 12-month highs. High yield bonds lead the way, with the iBoxx $ Liquid High Yield Index up +5.94% year-to-date. The Barclays Capital US TIPS Index, is up +4.47%, the S&P National Municipal Bond Index is +4.44% higher, and the Barclays Capital Aggregate Bond Index is +2.45%. Every bond index that we follow is now in positive territory for the year.

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The technical picture for both equity and bond markets looks quite favorable to us at this juncture. Many of the markets' excesses from the first quarter are being resolved with sideways, trading range price activity. This sort of action allows the markets breadth to consolidate and build a base for potentially even higher moves. The flip side of a trading range is that is holds the potential to form market tops. But primary market sectors continue to respect their long-term moving averages, even on pullbacks. This represents a key source of ongoing support for this Bull Market.

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Sources: Barrons, Bloomberg, iShares.com, Marketwatch.com, Stock Trader's Almanac 2010, StockCharts.com.