

## **Summary of Economic and Market Indicators March 2011**

### **Signs for Caution**

- ◆ Unemployment rate rises to 8.90%.
- ◆ U6 rate at 17% + (unemployed, under-employed, and labor pool drop outs).
- ◆ Federal Reserve executing Quantitative Easing II (QE) – sign of economic fragility.
- ◆ The White House and Congress extend the Bush tax-cuts for two more years and unemployment benefits for an additional year - sign of economic fragility.
- ◆ Housing market continues to be a struggle – Home construction fell 22.5 percent in February from January. Building permits, an indicator of future construction, fell 8.1 percent last month to the lowest level in more than 50 years.
- ◆ Shadow inventory of foreclosures reaches 3-4 million additional units.
- ◆ European sovereign debt crisis is not resolved- can is being kicked down the road.
- ◆ State & local budget issues need to be addressed- \$2-3 trillion dollars of under-funded pension liabilities.
- ◆ Concern over potential municipal bond defaults requiring a federal bailout of states and municipalities.
- ◆ Mounting US deficits- The federal government posted its largest monthly deficit in history in February 2011, a \$223 billion shortfall. Forty cents of every dollar spent by the US Government is borrowed.
- ◆ Gold rises to all-time nominal highs extending over \$1,400 an ounce.
- ◆ Commodity prices have experienced significant increases in the past year leading to inflationary input cost for manufacturers and a rise in food cost.
- ◆ China is experiencing inflation and is tapping on the breaks by raising interest rates and loan reserve requirements on banks.
- ◆ Corporate profit margin expansion is at all time highs.
- ◆ Talks of a currency and trade war developing as the US dollar debases as a result of QE.
- ◆ Heightened geo-political risk – Middle East/Northern Africa & North Korea
- ◆ Deleveraging US consumer- reverting to the debt to equity mean could result in an additional 6-7 trillion dollars coming off of individual's balance sheets.
- ◆ Recent economic recession is credit driven vs. inventory driven.
- ◆ Corporate insider selling at multi-decade highs.

### **Signs for Hope**

- ◆ Newly elected Congress less likely to introduce extreme policies.
- ◆ President Obama showing signs of moving to the center.
- ◆ Corporate earnings are meeting and exceeding expectations primarily through efficiencies stemming from cost controls.
- ◆ Declining US dollar aiding in increased US corporate exports.
- ◆ Technical analysis pointing to potential future gains in the market as a result of the mid-term election cycle. Third year of a presidential term is usually good for the markets.
- ◆ Retail sales are improving - suggesting that the consumer may be coming back to life.
- ◆ U.S. Manufacturing surveys are surging – Empire State Manufacturing, Philly Fed Survey etc...
- ◆ Consumer sentiment is improving, yet still below average recessionary levels.
- ◆ Healthier corporate balance sheets with \$2 trillion dollars of cash and lower interest rates on debt - potential use for share buybacks, dividend increases, and or acquisitions.
- ◆ Low interest rates are forcing investors out of bonds and into riskier investments such as stocks as they search for yield.