



June: Nothing to Croon About

Market Summary June 2010

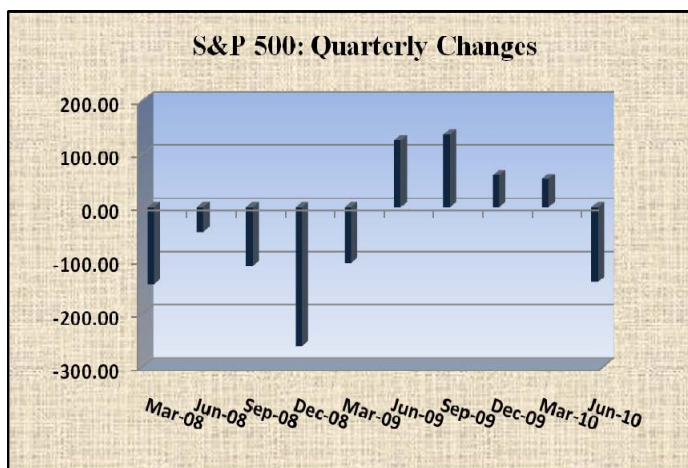
June must be considered a time for optimists, since it is a traditional favorite for mankind's most fervent declaration of faith in the future: the wedding ceremony. This year, however, many Americans (presumably including some newlyweds) found themselves a bit less confident in the future at the end of June than they were at the start. At least that's what the Conference Board found in its widely followed poll on consumer confidence. Its index dropped 9.8 points in June, to 52.9 (1985=100), interrupting three months of gain. What's more, consumers became gloomier in June about longterm business prospects than they had been in May: fewer said they expected conditions to improve over the next six months (17.2% vs. 22.8%); more said they expected them to worsen (14.9% vs. 11.9%).

Equity markets voted the same way. Stocks were down across the board in June, forcing the S&P 500 into its first quarterly loss since March 2009 (see chart). The loss for the June quarter (11.4%), taken with that from March 2008 quarter (9.9%), make matched bookends for the eight quarters in between – four down; four up. The net change over the 10 quarters was a loss of 437.26 points (29.8%).

Although those numbers might suggest a stock market that is trading water (while being washed downstream), economists at the Federal Reserve are sticking to their story that the overall economy remains in a solid, if not vigorous, recovery mode, with growth this year projected to be between 3.2% and 3.7%. However, market observers believe hedging strategies are under discussion inside the Fed about what to do if conditions take a less salutary turn. Fed watchers are unanimous that currently shaky economic conditions, along with the virtual absence of any indication of inflation (deflation in fact is now the greater concern)

means there will be no change in the current ultra-low fed funds rate.

Early this year, the December contract for fed funds futures was priced to anticipate a rate of about 1% at expiration. The implied rate has declined steadily, however, ending June at a level that anticipates the current 0-0.25% rate will hold firm through the end of the year.



Employment Disappointing

The jobs report in May was inflated by the federal government hiring about 400,000 temporary census workers. In June, 225,000 of those temps were let go again, and the monthly employment report returned to negative territory, with a net loss of 125,000 jobs. The better

news is that, disregarding hiring and firing by the census, 83,000 jobs were added in June, up from 33,000 in May.

Reality Check:

The jobs gain in June was nullified nine times over by a decrease in the average private sector workweek, according to a computation offered by The Economist. The loss of 0.1 hours (six minutes) from the national average workweek in June – as reported by the Bureau of Labor Statistics – is equivalent to a loss of 300,000 full-time jobs, the magazine reported.

Manufacturing Still Expanding (but)...

Manufacturing activity expanded for the 11th month in a row in June, but cooled significantly from May (56.2% vs. 59.7%; more than 50% = growth), according to the monthly survey by the Institute for Supply Management (ISM). The

most significant reversals came in new orders and production (58.5% vs. 65.7% and 61.4% vs. 66.6%, respectively). Less surprising, given the relative strength of the dollar in currency markets, was a decline in exports to 56.0% from 62.0%. Employment fell to 57.8% from 59.8%.

More problematic was the ISM report on the nonmanufacturing sector, where employment, having only nudged above the 50.0% “growth” line in May, slipped back below in June – dropping 0.7 points to a slightly contractionary 49.7%. The loss of jobs in the massive non-manufacturing sector was unsettling news to economists, one of whom likened it to “fumbling the baton,” in the relay race toward economic recovery, according to the Wall Street Journal.

Overall activity in non-manufacturing industries fell 1.6 points to 53.8% in June, the ISM reported.

Global manufacturing declined in June more or less in line with the retreat seen in the U.S., the ISM and JPMorgan reported. Overall activity fell 2.0 points to 55.0%; output dropped 2.3 points, to 57.0%; new orders fell 3.8 points to 55.5%. Employment fell 0.8 points, to 53.1%

Equities Punished

The top performance in June among all indices in our universe was a gain of 5.6% by the Alerian MLP Index, which tracks limited partnerships investing in energy. Its gain of 3.3% for the quarter was the only positive return among our equity benchmarks.

Among conventional stock benchmarks, the closest thing to a gain in June was 0.0%, returned by the S&P/Citigroup EMI-EPAC, an international small-cap benchmark. All stock indices ended the month showing losses for the quarter and the year.

Among large cap indices, the S&P 500 dropped 5.2% for June, and, as stated above, and shed 11.4% through the quarter. The Dow Jones Industrials Average lost 3.4% for the month and 9.4% for the quarter. The Russell 1000 Index fell 5.6% in June, and 11.4% for the quarter. The losses were split fairly evenly between the Russell 1000 sub indices: Value fell 5.6% for the month and 11.1% for the quarter; Growth fell 5.5% for the month and 11.7% for the quarter.

Treatment was slightly less brutal for smaller-cap stocks. The mid-cap S&P 400 escaped June with a 6.6% loss for the month and 9.6% for the quarter.

The small-cap S&P 600 fell 7.1% for the month and 8.7% for the quarter. The Russell 2000 dropped 7.7% for the month and 9.9% for the quarter. Russell 2000 Growth dropped 6.7% in June and 9.2% for the quarter; Russell 2000 Value fell 8.7% for the month and 10.6% for the quarter.

International stocks generally fared better than U.S. issues in June, but quarterly returns were generally just as ugly. The large-cap MSCI EAFE Index lost 1.0% in June and 14.0% for the second quarter. MSCI Emerging Markets shed 0.7% in June and 8.4% for the quarter. The S&P/Citigroup EMI-EPAC achieved Schneider in June, as mentioned, but lost 11.0% for the quarter.

REITS Trimmed; Commodities Eek-Out Gain

The Dow Jones U.S. Select REIT Index lost 5.4% in June, and 4.1% for the second quarter. The S&P Global REIT Total Return Index dropped 2.8% for the month and 6.4% for the quarter.

The Dow Jones-UBS Commodity Index gained 0.3% in June, but fell 4.8% for the quarter. The Goldman Sachs Commodity Index gained 0.4% for the month and fell 10.4% for the quarter.

Bonds Provide an Oasis

Bonds generally did quite well in June, even as their equity brethren drowned in the maelstrom. The Barclays Aggregate returned a respectable 1.6% for the month and 3.5% for the quarter. The U.S. Treasury: Long Index led all fixed income benchmarks for the month, with a 4.6% gain, and led all indices for the quarter, with a gaudy 12.2%.

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