

## The Economy

The Blue Chip Economic Indicators survey from May revealed a Gross Domestic Product forecast of 2.7% for 2011, down from 2.9% in April, according to IBD.com. Many economists believe that growth needs to exceed 3.0% to keep the unemployment rate from rising. Brian Wesbury, Chief Economist at First Trust Advisors L.P., remains more bullish than the consensus and sees GDP growth closer to 4.0% in 2011. Brian expects the second half of the year to be much stronger than the first half. The nonfarm payroll release for May showed an increase of 54,000 jobs, much weaker than the consensus estimate of 165,000, according to Bloomberg. Productivity has slipped below 2.0% the past two quarters. Could be a sign companies may need to add more workers.

<b>Consumer Confidence</b> <b>60.8</b> (May) 65.4 (Apr)	<b>Crude Oil (Mo.-End)</b> <b>\$102.7</b> (May) \$113.93 (Apr)	<b>Personal Spending</b> <b>0.4%</b> (Apr) Mar was 0.6%	<b>ISM Manufacturing</b> <b>53.5</b> (May) 60.4 (Apr)	<b>ISM Non-Manufacturing</b> <b>54.6</b> (May) 52.8 (Apr)
<b>Gold (Mo.-End)</b> <b>\$1535.90</b> (May) \$1556.40 (Apr)	<b>Natural Gas (Mo.-End)</b> <b>\$4.67</b> (May) \$4.70 (Apr)	<b>Factory Orders</b> <b>-1.2%</b> (Apr) Mar was 3.0%	<b>New Home Sales</b> <b>323,000</b> (Apr) 300,000 (Mar)	<b>Existing Home Sales</b> <b>5.05M</b> (Apr) 5.10M (Mar)

## The Stock Market

### Indices (Source: Bloomberg)

	May	12-mo.
S&P 500	-1.1%	26.0%
DJIA	-1.5%	27.3%
NASDAQ 100	-1.2%	29.1%
S&P 400	-1.4%	33.0%
Russell 2000	-1.9%	29.7%
Russell 3000	-1.1%	27.0%
MSCI World (ex U.S.) (USD)	-2.8%	31.0%
MSCI Emerging Markets (USD)	-2.6%	28.8%

### Growth/Value (Source: Bloomberg)

	May	12-mo.
S&P 500 Citigroup Growth	-0.5%	28.9%
S&P 500 Citigroup Value	-1.8%	23.2%
S&P Midcap 400/Citigroup Growth	-1.0%	38.7%
S&P Midcap 400/Citigroup Value	-1.7%	27.5%
Russell 2000 Growth	-2.0%	36.8%
Russell 2000 Value	-1.8%	22.9%

Sixty-one out of the 133 subsectors (46%) that comprise the S&P 500 posted a gain in May, down from 99 (74%) last month, according to S&P. Consumer Staples was the top performing sector, up 2.5%. In May, the dividend-payers (387) in the S&P 500 (equal weight) posted a total return of -0.60%, vs. -0.51% for the non-payers (113), according to Standard & Poor's. Y-T-D through May, the payers were up 9.60%, vs. a gain of 10.77% for the non-payers. For the 12-month period ended May '11, payers were up 26.11%, vs. a gain of 24.88% for the non-payers. The number of dividend increases y-t-d totaled 177, up from 110 increases a year ago. Thirteen companies initiated dividends, up from 9 a year ago. The rally in the dollar seemed to stall the rally in the stock market in May. The dollar, which had declined over 7% against a basket of major currencies through April, rebounded over 2% in May. That sparked profit taking in the sectors that had rallied the most through April, including energy, industrials, materials and technology. It should be noted, however, that the S&P 500 had posted a total return of 9.0% y-t-d through April. At that pace the index was headed for a return of 27% for the year. Too far, too fast for some. The weaker-than-expected 1.8% GDP growth rate (annualized) in Q1'11 also spooked the market. Second half earnings estimates are better than first half estimates, according to S&P.

<b>U.S. Dollar Index (USDx)</b> <b>2.3%</b> (May) -5.6% (2011) \$ was down 1.1% in '10	<b>CBOE Total Equity Options</b> (# of contracts in millions) <b>May: 38.4</b> (-8.8%) Apr: 42.1 (-14.8%) Record 7/08: 67.2 million	<b>Short Interest (NYSE)</b> <b>May 13: 12.9B</b> (-1.5%) Apr 15: 13.1B (+4.8%) Record 7/08: 18.61 billion shares	<b>VIX Volatility Index (S&amp;P 500)</b> <b>15.45</b> (5/31) 14.75 (4/29) Record 11/20/08: 80.86
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## The Bond Market

### Index (Source: Barclays)

	May	12-mo.	Yield
U.S. Treasury: Intermediate	1.26%	4.28%	1.29%
GNMA 30 Year	1.37%	6.01%	3.54%
Municipal Bond (22+)	3.10%	1.49%	5.30%
U.S. Aggregate	1.31%	5.84%	2.74%
Intermediate Corporate	1.12%	8.51%	3.00%
U.S. Corporate High Yield	0.49%	18.22%	6.82%
Global Aggregate	-0.08%	12.12%	2.72%
Global Emerging Markets	0.74%	15.96%	5.53%

Bonds enjoyed another solid month in May. Global developed and emerging market debt lagged the domestic groups due to the rebound in the dollar. Bonds likely benefited from the soft patch in the economy. The Fed is scheduled to end QE2 (\$600 billion used to buy Treasuries in the open market) in June. Congress and the Obama Administration have yet to resolve the issue of raising the debt ceiling, or pass a budget. The one bright spot may be a pop in state tax receipts. Data compiled by the Rockefeller Institute shows tax collections in the 47 states that have reported rose 9.1% (y-o-y) in Q1'11, the fifth consecutive quarter in which revenues were up, according to its own release. It was the strongest showing since mid-2006. The biggest jump was in personal income tax revenues, up 12.4% (y-o-y) in Q1.

Key Rates as of May 31		Key Yield Spread		2011 Debt Issuance Through April		
		The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Bond was 432 basis points on 5/31/11, up from 392 on 4/29/11. It was 601 on 5/31/10. (Source: Bloomberg)		(Source: Thomson Reuters)		
		Debt Category	\$ Amount	% change over '10		
Fed Funds	0-0.25%	Treasury	\$633.5 Billion	-24.8%		
2-Yr. T-Note	0.47%	Corporate	\$446.1 Billion	+23.4%		
10-Yr. T-Bond	3.06%	Convertible	\$11.0 Billion	-4.6%		
30-Yr. Mortgage	4.48%	Asset-Backed	\$41.5 Billion	-3.0%		
Bond Buyer 40	5.36%	Municipal	\$62.7 Billion	-52.5%		
(Source: Bloomberg)						

Equity funds reported net cash inflows totaling \$6.6 billion in 4/11, vs. \$2.1 billion of inflows in 3/11, according to the Investment Company Institute. Bond fund inflows totaled \$13.0 billion, vs. \$11.6 billion of inflows in 3/11. Money Market fund outflows totaled \$3.6 billion, vs. \$14.6 billion of outflows in 3/11. Y-T-D through April, equity funds reported net inflows totaling \$41.4 billion, vs. \$30.4 billion of inflows for bond funds and \$81.9 billion of outflows for MMFs.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	1565.15	10/09/07	676.53	03/09/09	1345.20	-14.05%	7.82%	1.89%
S&P 500/Citigroup Growth	730.83	10/12/07	363.99	03/09/09	707.84	-3.15%	8.14%	1.68%
S&P 500/Citigroup Value	836.19	07/13/07	307.16	03/09/09	628.75	-24.81%	7.51%	2.11%
S&P 400	1015.26	04/29/11	372.88	10/09/02	1000.25	-1.48%	10.82%	1.28%
S&P 400/Citigroup Growth	461.32	04/29/11	162.27	10/09/02	456.27	-1.09%	12.51%	0.79%
S&P 400/Citigroup Value	361.18	06/04/07	135.55	10/09/02	344.50	-4.62%	9.18%	1.76%
S&P 100	729.79	10/09/07	322.13	03/09/09	597.32	-18.15%	6.53%	2.02%
DJIA	14164.53	10/09/07	6547.05	03/09/09	12569.79	-11.26%	9.79%	2.41%
NASDAQ 100	2413.59	04/27/11	804.64	10/07/02	2372.54	-1.70%	7.32%	0.94%
Russell 2000	865.29	04/29/11	327.04	10/09/02	848.30	-1.96%	8.71%	1.33%
Russell 2000 Growth	497.75	04/29/11	169.69	10/09/02	487.79	-2.00%	10.97%	0.63%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	1118.27	-12.40%	6.39%	2.08%
Russell 3000	907.58	10/09/07	389.61	03/09/09	805.74	-11.22%	8.30%	1.78%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	4429.00	-17.68%	6.23%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	75.12	09/21/01	447.73	-5.41%	2.45%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2160.80	10/16/02	40922.11	-8.32%	-1.66%	3.67%
RTS/Russia (USD)	2487.92	05/19/08	174.20	10/03/01	1888.60	-24.09%	8.43%	2.09%
Bombay SE 500/India (USD)	226.04	01/07/08	16.50	09/21/01	160.54	-28.98%	-9.59%	1.31%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	423.47	-47.74%	-0.24%	1.36%
KOSPI/South Korea (USD)	2.29	10/31/07	0.36	09/17/01	1.99	-13.39%	9.85%	1.31%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	3045.56	-25.39%	4.10%	2.47%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	1270.59	-36.10%	13.71%	3.94%
S&P Consumer Discretionary	322.58	05/12/11	125.72	03/09/09	318.91	-1.14%	8.52%	1.45%
S&P Consumer Staples	333.63	05/19/11	182.72	03/10/03	332.13	-0.45%	10.60%	3.02%
S&P Energy	668.81	05/20/08	163.83	07/23/02	570.47	-14.70%	13.51%	1.69%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	170.84	-23.70%	9.21%	4.21%
S&P Financials	509.55	02/20/07	81.74	03/06/09	213.09	-58.18%	-0.25%	1.34%
S&P Banks	414.38	02/20/07	49.02	03/05/09	140.55	-66.08%	-4.87%	1.31%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	480.18	-29.02%	14.12%	3.50%
S&P Health Care	426.93	05/07/07	252.84	03/05/09	416.37	-2.47%	15.23%	1.98%
S&P Pharmaceuticals	447.78	06/05/01	214.50	03/03/09	331.01	-26.08%	13.11%	3.44%
NYSE Arca Biotechnology	1502.18	05/12/11	280.09	07/10/02	1481.37	-1.39%	14.16%	1.09%
S&P Information Technology	441.36	10/31/07	172.88	10/09/02	422.04	-4.38%	4.81%	0.95%
Philadelphia Semiconductor	697.03	06/07/01	171.32	11/20/08	439.60	-36.93%	7.25%	1.17%
S&P Telecom Services	199.30	07/19/01	79.00	09/30/02	136.34	-31.59%	8.43%	4.98%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	324.53	-14.86%	8.72%	1.99%
S&P Materials	285.91	05/16/08	102.55	10/09/02	247.05	-13.59%	3.98%	1.96%
Philadelphia Gold & Silver	228.95	04/08/11	49.46	11/19/01	208.78	-8.81%	-7.24%	1.28%
Reuters/Jefferies CRB	473.52	07/02/08	183.52	10/22/01	350.06	-26.07%	5.19%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	163.43	-17.40%	6.36%	6.94%
Merrill Lynch High Yield Master II	276.97	05/20/11	106.67	10/10/02	276.78	-0.07%	6.00%	7.38%