

The Economy

Another disappointing nonfarm payroll number in May (69,000 vs. 150,000 estimate from Bloomberg's survey of economists) put a damper on the stock market and pushed more investors seeking a safe haven into Treasuries. The yield on the 10-Year T-Note fell to an all-time low of 1.47% on June 1 (see The Bond Market). The ongoing sovereign debt crisis in the European Union (EU) is contributing to the erosion of investor confidence, in our opinion, due to a lack of guidance on how and when it plans to fund its capital shortfalls. On a positive note, Bloomberg reported that companies in the U.S. increased capital expenditures by 38% from June 2010 through March 2012, the fastest pace since June 2006, when stocks were in the midst of a 5-year bull market.

Consumer Confidence 64.9 (May) 69.2 (Apr)	Crude Oil (Mo.-End) \$86.53 (May) \$104.87 (Apr)	Personal Spending 0.3% (Apr) Mar was 0.3%	ISM Manufacturing 53.5 (May) 54.8 (Apr)	ISM Non-Manufacturing 53.7 (May) 53.5 (Apr)
Gold (Mo.-End) \$1562.60 (May) \$1664.20 (Apr)	Natural Gas (Mo.-End) \$2.42 (May) \$2.29 (Apr)	Factory Orders -0.6% (Apr) Mar was -1.5%	New Home Sales 343,000 (Apr) 328,000 (Mar)	Existing Home Sales 4.62M (Apr) 4.48M (Mar)

The Stock Market

Indices (Source: Bloomberg)

	May	12-mo.
S&P 500	-6.0%	-0.4%
DJIA	-5.8%	1.3%
NASDAQ 100	-7.1%	7.6%
S&P 400	-6.5%	-6.1%
Russell 2000	-6.6%	-8.9%
Russell 3000	-6.2%	-1.9%
MSCI World (ex U.S.) (USD)	-11.4%	-20.6%
MSCI Emerging Markets (USD)	-11.2%	-20.1%

Growth/Value (Source: Bloomberg)

	May	12-mo.
S&P 500 Growth	-5.5%	2.7%
S&P 500 Value	-6.7%	-3.7%
S&P 400 Growth	-6.3%	-6.0%
S&P 400 Value	-6.7%	-6.2%
Russell 2000 Growth	-7.1%	-9.5%
Russell 2000 Value	-6.1%	-8.3%

Twelve out of the 132 subsectors (9%) that comprise the S&P 500 posted a gain in May, down from 58 (44%) last month, according to S&P. Telecom Services was the top performing sector, up 2.6%. In May, the dividend-payers (399) in the S&P 500 (equal weight) posted a total return of -6.74%, vs. -9.60% for the non-payers (101), according to S&P. Year-to-date through May, the payers were up 3.53%, vs. a gain of 2.88% for the non-payers. For the 12-mo. period ended May, payers were down 4.22%, vs. a loss of 14.18% for the non-payers. The number of dividend increases y-t-d totaled 181, up from 177 a year ago. Four dividends were cut, up from two a year ago. Volatility returned to the market in May (see VIX reading below). There were 70 "all or nothing trading days" in 2011, surpassing the previous high (since 1990) of 52 in 2008, according to Bespoke Investment Group. All or nothing days occur when the daily Advance/Decline reading in the S&P 500 exceeds plus or minus 400. While there were no all or nothing days through the first two months of 2012, there were 10 from 2/29-5/23. From 1990-2006, the average was 5 per year. Studies have shown that timing stocks is largely futile. The 2012 edition of Dalbar's Quantitative Analysis of Investor Behavior reported that the average stock fund investor lagged the S&P 500 by an average of 4.32 percentage points per year since '91, due primarily to trading on emotions.

U.S. Dollar Index (DXY) +5.4% (May) +3.6% (YTD) \$ was up 1.5% in '11	CBOE Total Equity Options (# of contracts in millions) May: 43.1 (+2.4%) Apr: 42.1 (-9.3%) Record 7/08: 67.2 million	Short Interest (NYSE) May 15: 13.5B (+4.7%) Apr 13: 12.9B (+0.8%) Record 7/08: 18.61 billion shares	VIX Volatility Index (S&P 500) 24.06 (5/31) 17.15 (4/30) Record 11/20/08: 80.86
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The Bond Market

Index (Source: Barclays)

	May	12-mo.	Yield
U.S. Treasury: Intermediate	0.75%	5.49%	0.59%
GNMA 30 Year	0.49%	6.19%	2.43%
Municipal Bond (22+)	1.39%	16.60%	3.73%
U.S. Aggregate	0.90%	7.12%	1.96%
Intermediate Corporate	0.13%	5.73%	2.74%
U.S. Corporate High Yield	-1.31%	4.03%	7.88%
Global Aggregate	-1.03%	2.32%	2.00%
Global Emerging Markets	-3.17%	4.48%	5.69%

Fears over slowing economic activity in the U.S. and abroad inspired a bit of a flight to quality in May. The yield on the benchmark 10-Year T-Note closed the trading session on 6/1/12 at 1.47%. That is a record low (previous record was 1.55% in November 1945). The 10-Year T-Note currently yields less than half of what its rate was on July 25, 2011 (3.00%). That was about two weeks before Standard & Poor's cut the U.S.'s credit rating to AA+. Inflation is currently running at 2.3%. In mid-2007, just prior to the start of the subprime mortgage meltdown, the 10-Year T-Note yielded as much as 5.30%. From 5/31/92-5/31/12, its average yield was 5.06%, according to Bloomberg. Investing in the 10-Year T-Note at today's historically low yield would result in a 19.0% paper loss if yields were to return to 5.00% by 2014, according to Businessweek.com.

Key Rates as of May 31		Key Yield Spread		2012 Debt Issuance Through April		
		The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 657 basis points on 5/31/12, up from 567 on 4/30/12. It was 432 on 5/31/11.		(Source: Thomson Reuters)		
				Debt Category	\$ Amount	% change over '11
Fed Funds	0-0.25%			Treasury	\$863.8 Billion	+36.4%
2-Yr. T-Note	0.26%			Corporate	\$469.4 Billion	+4.9%
10-Yr. T-Bond	1.56%			Convertible	\$5.5 Billion	-49.7%
30-Yr. Mortgage	3.71%			Asset-Backed	\$64.2 Billion	+58.9%
Bond Buyer 40	4.38%			Municipal	\$112.6 Billion	+76.9%
(Source: Bloomberg)		(Source: Bloomberg)				

Equity funds reported net cash outflows totaling \$5.9 billion in 4/12, vs. \$9.8 billion of outflows in 3/12, according to the Investment Company Institute. Bond fund inflows totaled \$24.6 billion, vs. \$31.9 billion of inflows in 3/12. Money Market fund outflows totaled \$24.0 billion, vs. \$70.6 billion of outflows in 3/12. Y-T-D through April, equity funds reported net outflows totaling \$14.6 billion, vs. \$119.2 billion of inflows for bond funds (municipals had inflows totaling \$19.0B) and \$134.0 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	1310.33	-16.28%	5.16%	2.17%
S&P 500 Growth	763.67	04/02/12	363.99	03/09/09	713.20	-6.61%	6.10%	1.88%
S&P 500 Value	836.19	07/13/07	307.16	03/09/09	590.09	-29.43%	4.03%	2.52%
S&P 400	1015.26	04/29/11	372.88	10/09/02	925.63	-8.83%	5.90%	1.49%
S&P 400 Growth	465.69	07/07/11	162.27	10/09/02	425.01	-8.74%	6.80%	0.99%
S&P 400 Value	361.18	06/04/07	135.55	10/09/02	316.58	-12.35%	4.92%	2.05%
S&P 100	729.79	10/09/07	322.13	03/09/09	597.29	-18.16%	5.72%	2.30%
DJIA	14164.53	10/09/07	6547.05	03/09/09	12393.45	-12.50%	2.67%	2.74%
NASDAQ 100	2784.42	04/02/12	804.64	10/07/02	2524.87	-9.32%	11.35%	1.02%
Russell 2000	865.29	04/29/11	327.04	10/09/02	761.82	-11.96%	3.37%	1.73%
Russell 2000 Growth	497.75	04/29/11	169.69	10/09/02	438.49	-11.91%	3.48%	0.86%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	1003.38	-21.40%	3.26%	2.58%
Russell 3000	907.58	10/09/07	389.61	03/09/09	774.61	-14.65%	5.19%	2.11%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	3518.62	-34.60%	-3.87%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	79.55	10/10/02	356.75	-24.63%	0.07%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2160.80	10/16/02	26952.76	-39.62%	-10.95%	4.94%
RTS/Russia (USD)	2487.92	05/19/08	313.99	08/06/02	1307.03	-47.46%	-6.46%	4.05%
Bombay SE 500/India (USD)	226.04	01/07/08	21.10	10/28/02	111.92	-50.48%	3.31%	1.73%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	372.14	-54.07%	6.93%	1.97%
KOSPI/South Korea (USD)	2.29	10/31/07	0.41	03/17/03	1.56	-31.87%	-1.47%	1.43%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	2399.97	-41.21%	2.69%	3.77%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	833.49	-58.09%	-7.57%	4.68%
S&P Consumer Discretionary	364.84	05/02/12	125.72	03/09/09	339.78	-6.87%	10.84%	1.68%
S&P Consumer Staples	354.29	04/02/12	182.72	03/10/03	347.33	-1.96%	4.70%	2.98%
S&P Energy	668.81	05/20/08	163.83	07/23/02	476.51	-28.75%	-7.61%	2.28%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	181.00	-19.16%	0.74%	4.22%
S&P Financials	509.55	02/20/07	81.74	03/06/09	188.19	-63.07%	8.26%	1.98%
S&P Banks	414.38	02/20/07	49.02	03/05/09	149.51	-63.92%	15.82%	2.13%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	476.38	-29.59%	8.44%	3.37%
S&P Health Care	437.42	04/02/12	252.84	03/05/09	417.36	-4.59%	4.90%	2.27%
S&P Pharmaceuticals	372.70	06/17/03	214.50	03/03/09	338.48	-9.18%	1.90%	3.52%
NYSE Arca Biotechnology	1511.91	05/11/12	280.09	07/10/02	1425.03	-5.75%	30.63%	0.09%
S&P Information Technology	502.11	04/02/12	172.88	10/09/02	448.80	-10.62%	10.06%	1.11%
Philadelphia Semiconductor	560.65	01/12/04	171.32	11/20/08	368.37	-34.30%	1.64%	1.60%
S&P Telecom Services	181.06	05/31/07	79.00	09/30/02	139.66	-22.87%	10.38%	5.05%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	299.48	-21.43%	3.46%	2.48%
S&P Materials	285.91	05/16/08	102.55	10/09/02	213.23	-25.42%	1.61%	2.35%
Philadelphia Gold & Silver	228.95	04/08/11	55.73	07/26/02	153.80	-32.82%	-14.14%	1.84%
Reuters/Jefferies CRB	473.52	07/02/08	200.13	06/11/02	272.97	-42.35%	-10.59%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	174.19	-11.96%	9.27%	6.97%
Merrill Lynch High Yield Master II	291.05	05/07/12	106.67	10/10/02	285.91	-1.77%	4.91%	8.13%