

# MassMutual Retirement Services Weekly Market Commentary

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## Market Overview

Equity markets lost ground again last week, with the S&P 500 Index (U.S. large-cap stocks) dropping to a two-month low and the MSCI EAFE Index (stocks of foreign developed markets) declining more than 2%, as investors digested last Sunday's anti-austerity election results in Greece. Concerns that Europe's debt crisis would once again negatively impact global growth led to the euro's longest slump versus the U.S. dollar since 2008 and outweighed generally positive economic reports in both the U.S. and in Germany. In the U.S., consumer confidence hit four-year highs, the unemployment rate dropped to 8.1%, and the U.S. government posted its first monthly surplus in three years. However, news of a \$2 billion trading loss at JPMorgan Chase shook the financial sector on Friday and led to renewed debate on governmental oversight of banks. In Europe, Germany reported stronger-than-expected manufacturing and export levels. China reported further data indicating their economy is slowing, and Asian stocks hit three-month lows. With renewed concerns out of Europe, commodity prices fell and U.S. Treasuries rallied. Oil hit its lowest price of 2012, and gold dropped to less than \$1,600 per ounce. Investors once again viewed U.S. Treasuries as a safe haven, and the yield of the 10-Year Treasury note dropped to 1.82% on Wednesday (bond prices increase as yields decrease) and helped push the Barclays Capital U.S. Aggregate Bond Index to a positive return for the week. This upcoming week investors will watch reports on leading economic indicators, inflation, and housing while awaiting Facebook's much-anticipated initial public offering ("IPO") on Friday.

## Returns of Major Indexes

	<b>Week Ended May 11, 2012</b>	<b>Year-to-Date 2012</b>
Dow Jones Industrial Average <sup>SM</sup> (1)	-1.50%	5.97%
S&P 500 <sup>®</sup> Index (2)	-1.06%	8.44%
NASDAQ Composite <sup>®</sup> Index (3)	-0.76%	12.62%
Russell 2000 <sup>®</sup> Index (4)	-0.19%	7.12%
MSCI EAFE <sup>®</sup> Index (5)	-2.42%	3.92%
Barclays Capital U.S. Aggregate Bond Index (6)	0.09%	1.74%



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## **Key Business and Economic Events**

**US Economic News:** Consumer confidence grew in May to the highest level in four years. Consumer borrowing rose by \$21.4 billion, the highest increase in a decade, on growing demand for autos and student loans. U.S. mortgage applications rose 1.7% last week, and 30-year mortgages again reached record lows, hitting 3.83% mid-week. The U.S. government posted an April budget surplus of \$59.1 billion, the first surplus in more than three years. Wholesale inventories showed only slight improvement, rising 0.3% as companies kept their stockpiles in line with demand. April import prices dipped 0.5%, primarily on lower fuel costs. The March U.S. trade deficit widened by 14% to \$51.8 billion on higher demand for oil, automobiles, and electronics. April wholesale prices fell 0.2%, the first drop in four months on falling fuel costs.

**Jobs:** The U.S. jobless rate unexpectedly fell to 8.1%, though the improvement was largely due to people giving up job searches or leaving the work force. The U.S. Labor Department reported only 115,000 employees were added to jobs rolls in April, the smallest expansion in six months. Claims for unemployment benefits dropped to 367,000, the lowest level in a month.

**Europe:** While Europe dealt with changing political currents with anti-austerity votes in France and Greece, European economic data was generally positive. Germany reported March factory orders rose a higher-than-expected 2.2%, driven by sales outside the euro area. Similarly, German industrial output gained 2.8%, which was a positive surprise, and, German exports rose 0.9%, even though economists had expected a decline. Other encouraging reports included gains of 0.9% in U.K. manufacturing and 0.5% gains in Italian industrial production. The April U.K. house-price index fell to a six-month low when demand slackened after the expiration of a first-time homebuyers program. France saw its March trade deficit narrow on slowing imports. The euro hit a three-month low versus the U.S. dollar and finished the week at \$1.29.

**China:** China reported slower April export growth at 4.9%, well below expectations of 8.5%. Imports only increased 0.3%, which was also well below the 10.9% that had been expected. Chinese consumer prices rose by 3.4% in April, which was below the government's target rate and seemed to indicate slower inflation may be taking hold. China's industrial production grew 9.3%, though this was the lowest reading since 2009.

**Corporate:** JPMorgan Chase reported a \$2 billion loss on derivatives trading, which helped send financial stocks lower on Friday. Facebook began its road show for this Friday's IPO, which is expected to value the company at around \$96 billion. Walt Disney pleased investors after reporting earnings rose 21% while its movie *Marvel's the Avengers* earned a record \$200 million at the box office in its opening weekend. Cisco Systems and Macy's reported strong quarterly results but disappointing earnings forecasts. Mortgage company Fannie Mae posted a quarterly profit of \$2.7 billion, its biggest since 2007 and also will not need a government cash infusion for the first time since 2008. The U.S. Treasury sold \$5 billion in AIG shares as it continued to reduce its stake in the company.

**Commodities:** Oil prices dropped to the lowest level of 2012, finishing the week at \$95.60. Oil supplies rose for a seventh straight week and reached their highest levels in more than 20 years, as growing production boosted reserves and the U.S. dollar strengthened. Oil prices fell for six straight days, the longest slide in almost two years, before recovering Thursday. Gold fell below \$1,600 / ounce for the first time since January on European growth concerns, and silver also retreated to January levels.

**Interest Rates:** U.S. Treasury yields fell during the week, with the yield of the 10-year Treasury hitting three-month lows of 1.82% on Wednesday, as investors became more concerned that recent election results could jeopardize austerity efforts. IBM took advantage of the low rate environment and issued a seven-year corporate bond with a stated interest rate of 1.875% (0.65% over comparable U.S. Treasuries).

**The Upcoming Week:** Economic reports slated for release this week include the April U.S. consumer-price index, the National Association of Homebuilders' May housing market index, April housing starts, April

industrial production, the U.S. Conference Board's monthly leading economic indicators, and Japan's preliminary estimate of first-quarter gross domestic product (GDP). Also, the U.S. Federal Reserve will release minutes from its April meeting, European Union finance ministers will meet in Brussels and new French president Francois Hollande is to be sworn into office.

(1) Price-weighted average of 30 actively traded Blue Chip stocks, primarily industrials, but also including other service-oriented firms; may be used as a benchmark for large cap stocks. (2) Widely recognized, unmanaged index representative of common stocks of larger capitalized U.S. companies. (3) Broad-based index of over 5000 companies, which measure all domestic, and non-U.S. based common stocks listed on the NASDAQ Stock Market, Inc. (4) Unmanaged index representing the performance of small-cap U.S. stocks. (5) Unmanaged index consisting of approximately 1,200 stocks in developed market countries outside of North and South America, and represents approximately 85% of the total market capitalization in those countries. (6) Unmanaged index of fixed rate investment grade securities with at least one year to maturity combining the Barclays Capital U.S. Treasury Bond Index, the Barclays Capital U.S. Government-Related Bond Index, the Barclays Capital U.S. Corporate Bond Index, and the Barclays Capital U.S. Securitized Bond Index.

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