

# Market Commentary

May 2008

## Overview

The effects of the credit crisis continued to be felt in May as lending contracted and investors showed reticence towards Wall Street banks. Soaring oil prices propped up emerging markets while having a chilling effect on the U.S. and Europe. Energy and Materials were the big sector winners across the board as Financials continued to underperform.

## U.S. Economy

Unemployment reached 5.5 percent in May, the largest increase in two decades. Approximately 49,000 jobs were lost, continuing jobless claims hit a cyclical peak, and labor costs rose at an annual rate of 2.2 percent in the first quarter. Decreasing consumer liquidity, fueled by plummeting home prices, continued to negatively impact consumer confidence, which hit a 16-year low on May 27th. As the cost of commodities continued to rise, U.S. Federal Reserve Board Chairman Ben Bernanke hinted that the Fed may raise interest rates later this year to protect against inflation. Banks continued to curtail consumer access to credit, reeling in student loans, mortgages and credit cards in an effort to hedge against their own losses.

## U.S. Stock Market

The U.S. stock market ended the month up 2.09 percent as measured by the Dow Jones Wilshire 5000<sup>SM</sup>. Growth stocks heartily outperformed their value counterparts, which were down -0.51 percent for the month as measured by the Dow Jones Wilshire U.S. Large Value Index<sup>SM</sup>. The Dow Jones Wilshire U.S. Large Cap Index<sup>SM</sup> returned 4.44 percent, outperforming the 1.78 percent return of the Dow Jones Wilshire U.S. Small Cap Index<sup>SM</sup>, continuing a trend that has persisted for several months. Information Technology was the best performing sector, led by Apple and IBM. Monsanto was the big winner in the Materials sector while Chevron and ConocoPhillips soared in Energy. The weakest performing sector was Financials as investor confidence in the Wall Street banks continues to suffer.

## International Markets

The MSCI EAFE index rose 1.16 percent in May, led by the Energy and Materials sectors. In the emerging markets arena, debt was up slightly while high oil prices continued to bolster equities. European stocks also were up for the month, with Utilities representing the best performing sector. Financial stocks declined nearly 5 percent in Europe and property markets slowed across the continent. The Pacific region was up in May, with Japan posting the strongest performance, up 3.6 percent as measured by the MSCI Japan Index. Despite positive indicators including increased M&A activity and rising bond yields the region could not escape the dreary returns posted by the Financial sector.

## Fixed Income

The U.S. bond market was down -0.73 percent in May, as measured by the Lehman Aggregate Bond Index. Treasury securities slid for the month while the yield on the 10 year T - Note ended up 33 basis points from April. A record \$120 billion in new bonds were issued, signaling that the credit market is improving, especially within AAA and AA sector.

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