

Positive Signs Showing through Recession's Fog

While there are several indications that this current long and deep recession – the worst postwar downturn and the deepest recession since the 1930s – may be losing its bite, most economists seem to agree that any recovery isn't going to be a smooth ride.

Nevertheless, positive signs are appearing. Orders for durable goods, such as appliances and heavy machinery, are up 1.9% since March, the biggest one-month gain in 16 months. Investors also welcomed the latest U.S. consumer confidence survey. The Conference Board reported the May figure at 54.9, up from 40.8 in April, a gain said to be the fourth-largest in the survey's 42-year-history and the highest figure in eight months.

Housing, while still in rough shape, is also showing a few positive indications. New home sales rose 0.3% in April, and sales of existing homes in April rose 2.9%, although both figures are down on a year-over-year basis. The median sales price for a new home in April stood at \$209,700, down 14.9% from April 2008. There is plenty of bad news to temper the good, however. The Mortgage Bankers Association (MBA) says the foreclosure rate on prime fixed-rate loans has doubled over the past year, with nearly 6% of fixed-rate mortgage borrowers with good credit now in foreclosure – that's the largest share of new foreclosures. The MBA's quarterly National Delinquency Survey shows 1.37% of all mortgages entered a foreclosure process during the first quarter of the year.

Some observers point to a slight drop in jobless benefits claims, but are quick to note that employment figures are lagging indicators. The MBA forecast, which agrees with the Federal Reserve's take, is that unemployment will not peak until mid-2010. It's not a secret that mortgage payments depend on employment, so recovery of both is expected to be difficult.

Financial markets continued their slow march upward. The Dow Jones Industrial Average (an unmanaged index of 30 widely held stocks) gained 332.21 points, up 4.06% from its April close, to finish May at 8,500.33. The NASDAQ (an unmanaged index of common stocks listed on the NASDAQ National Stock Market) rose 57.03 points during the month, up 3.32% at 1,774.33, while the S&P 500 (an unmanaged index of 500 widely held stocks) ticked up 46.33 points or 5.3% for the month to close at 919.14.

Some fluttering in the bond market drew investor attention. Prices for U.S. Treasuries turned higher following a decline on yields of 10-year notes to 3.58% (yields move inversely to prices). In fact, the yields on 10-year notes jumped as much as 47 basis points in May, the largest increase since January. They reached their highest point since November, paring away some of the stunning drop that occurred when investors rushed to safety during the height of the credit crisis late last year.

Investors generally have been in a positive mood as the markets continue to trend up as the weeks pass, at least for a time recovering nicely from their March lows. However, no one is bold enough to be calling an end to market woes or to the recession. While there is nothing certain about the markets, times like these often toss up excellent investment opportunities.

If you have questions about the financial markets, please do not hesitate to call us.