

BEACON INVESTMENT MANAGEMENT

THE FRIDAY BRIEF

Distributed to our clients and friends weekly

<http://www.beaconinvest.com>

Toll Free 888-621-5885

Friday, May 02, 2008

Positive Signs

In our Brief two weeks ago we presented the possibility that the markets are sensing a comeback in the US economy. The Dow Jones Industrials are up 3.7% and the Nasdaq is up 4.7% from that point. Since their March lows the two indices are up 12.5% and 15.5% respectively. The bond markets and the currency markets are also moving in agreement as the dollar reached a five-week high yesterday and bond prices are trending down taking rates modestly higher.

Bank and brokerage CEO's, US Treasury Secretary Henry Paulson, and Ben Bernanke have all said they believe the worst of the credit crisis news is behind us. The Asian and emerging economies have continued to remain strong despite the US slowdown and just recently, US economic news is turning more positive, on balance

Today, the Labor Department reported that the unemployment rate unexpectedly fell and that far fewer jobs were lost than expected. The government said payrolls shrank by 20,000 workers in April which followed an upwardly revised 81,000 in March. Economists surveyed by Bloomberg expected jobs to be down by 75,000 in April. These reports suggest a shallow and short recession compared to 2001. Bloomberg points out that the monthly job loss during that recession was 121,000 in the first four months.

Mr. Bernanke's aggressive and unprecedented proactive moves to re-prime the credit markets and the most aggressive rate cuts in 20 years may have been sufficient to bring the consumer and the economy out of the steep dive that was earlier feared. On Wednesday the Fed lowered only a quarter percent and signaled that they may have done enough with interest rates, describing reductions as 'substantial.'

In its first of three reports on the first quarter, the Commerce Department said that the gross domestic product increased at an annual rate of .6%. That the increase came exclusively from inventory buildup, not actual sales, it is likely that recession actually started in the first quarter or earlier.

While the consumer has been battling the wilting forces of falling house prices and rising gasoline prices, evidence suggests that he has not succumbed. US consumer spending rose more than forecast in March, though much of the increase came from higher prices at the grocery store and the pump. Stripping out the impact of inflation, spending advanced 0.1% after staying unchanged in February. Hopefully income and job growth will resume soon, helping the consumer withstand rising prices on necessities.

Asian stock prices reflect both the belief that the worst of the credit crisis is behind, but uncertainty remains as to how their economies will bear up under slowing US demand. Sales of Japanese and South Korean auto brands grew at least 5% in April, giving them

a record 44.7% of the U.S. new-vehicle market. Global semiconductor sales rose 3.8% last quarter as consumers bought more electronic devices according to the Semiconductor Industry Association. The trade group is “optimistic” for full-year sales.

South Korean exports have are a good indicator of the health of the Asian markets. At the end of April that country reported that exports grew 27%, more than economists estimated due to a cheaper domestic currency. Growing shipments to China are offsetting lagging sales in the slowing US.

Yesterday, Brazil's stock soared as Standard & Poor's awarded the country an investment grade credit rating, pushing the Bovespa index to a record. As that country gets it financial house in order and interest rates fall, profits rise. We are significantly invested in Asia and Brazil.

While markets may be anticipating economic recovery, there is still plenty of room for bad news and ensuing doubt along the way. Economic recoveries are never even and smooth. There will likely be conflicting economic data for months to come. But what seems clear is that the global economy is doing quite well and that is good for the US economy and stocks.

Have a nice weekend.