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April Showers Bring Flowers to the Global Synchronized Expansion

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While real estate may be all about location, location, location, in the equity markets, it's earnings, earnings, earnings. This has been abundantly clear in recent weeks as the stock market continued to "climb a wall of worry"; despite oil over $110/barrel, a sinking dollar and ballooning national debt levels, a spectacular start to earnings season — particularly in the technology sector — has given the market the boost it needed to sustain its upward path.

Basically, first quarter 2011 earnings season thus far has been an absolute blowout. Even our optimistic forecast for earnings per share growth of 15% is being left in the dust — growth is currently tracking at over 21%. Strong earnings are being reported across the board; with 65% of S&P 500 companies having released first quarter 2011 results, 73% have beaten earnings expectations. The strongest growth has been in the energy, technology, industrial and materials sectors.

Technology is truly knocking the cover off the ball, with EPS growth of 30%. We are in a tech boom the likes of which has not been seen since the late 1990s, which can only happen when both businesses and consumers are buying product. Among the trends fueling the current buying spree is the transition from a laptop-centric technology model to a mobile phone-centric one. Manufacturing's big comeback was highlighted by the sector's strongest quarterly growth since 1997, and some analysts are even boldly declaring that manufacturing alone will save us from tepid economic expansion. While we're impressed with the improvements in manufacturing, the last time we checked consumer spending levels were at all-time highs. Sure enough, the consumer

Returns For 2011 On All Risky Assets Are Positive

Index	Wgt	Apr-11	YTD	2010	2009	2008	2007	2006	1 year	3 years	5 years	10 years
Equity												
S&P 500	10%	3.0	9.1	15.1	26.5	(37.0)	5.5	15.8	17.2	1.7	2.9	2.8
S&P Midcap	10%	2.7	11.9	24.9	35.0	(37.3)	6.7	9.0	23.4	6.6	4.8	7.1
S&P Smallcap	10%	2.5	10.2	25.0	23.8	(32.0)	(1.2)	14.1	20.2	6.5	3.0	7.6
U.S. REIT	10%	5.5	11.4	23.5	21.0	(41.5)	(20.2)	30.2	18.2	(3.0)	(1.6)	8.6
EAFE	10%	6.1	9.7	8.2	32.5	(43.1)	11.6	26.9	19.7	(2.4)	2.0	5.7
Emerging Markets	10%	0.3	3.5	9.8	93.5	(59.3)	59.1	56.6	12.8	(1.5)	11.0	19.2
Average		3.3	9.3	17.7	38.7	(41.7)	10.2	25.4	18.6	1.3	3.7	8.5
Fixed Income												
Corporate	10%	1.7	2.6	9.0	18.7	(4.9)	4.6	4.3	7.4	7.8	6.9	6.4
U.S. Treasury 20+	10%	2.0	0.4	9.4	(21.4)	33.7	10.2	0.9	6.1	4.5	6.7	6.7
Global Aggregate	10%	3.1	4.4	5.5	6.9	4.8	9.5	6.6	10.5	5.7	7.2	7.4
High Yield	10%	1.5	5.5	15.1	58.2	(26.2)	1.9	11.8	13.4	11.9	9.3	8.9
Average		2.1	3.2	9.8	15.6	1.9	6.5	5.9	9.3	7.5	7.5	7.4
60/40 Portfolio		**2.8**	**6.9**	**14.5**	**29.5**	**(24.3)**	**8.8**	**17.6**	**14.9**	**3.8**	**5.2**	**8.0**

Source: FactSet

discretionary sector is right behind the leaders, posting EPS growth of 18%; moreover, sales are up more than 12%, showing that earnings growth is now being fueled by more than just cost-cutting and productivity enhancements. In short, this is what a bull market feels like.

In another sign of the times, mergers and acquisitions are setting a blistering pace; worldwide, $213 billion of acquisitions have been announced in the last 30 days, and new deals continue to hit the tape almost daily. CEOs have waited too long to spend the much-ballyhooed $2 trillion in cash on their balance sheets, and they are being compelled by shareholders to put it to work or face the consequences. Mid- and small-cap companies are usually the beneficiaries of these deals; sure enough, these indexes have surged, with the Russell 2000 closing out April at an all-time high.

And the good news is not limited to the U.S. Signs of a synchronized global economic expansion are evident in the performance of such emerging markets as South Korea, which just reported stellar first quarter growth numbers driven by its economic mainstay — manufactured goods. With exports out of the country hitting a record $48.6 billion last month, it's no wonder South Korea is first on the list of emerging market governments with whom the Obama administration is trying to sign free-trade agreements. Although "trade deficit" may be considered a pejorative term, the key word is "trade" — i.e., exports and imports — and we are nearing an all-time high in this measure.

In the euro zone, manufacturing numbers continue to defy gravity. France and Germany are setting the pace in the region and providing hope that the export-based recovery will take root across the currency bloc. Recent data suggest that the economic recovery in the euro zone as a whole remains little affected so far by the headwinds facing the region, such as fiscal tightening, high oil prices, a strong euro and the lingering debt crisis. Those in the U.S. who are worried that too much belt-tightening will slow the economy significantly should keep a close eye on what is happening across the pond.

Of course that does not mean that risk has taken a holiday. Standard & Poor's in mid-April announced that it had downgraded its outlook on U.S. debt to "negative" from "stable" while affirming its AAA rating. The U.S. must get its financial situation under control and drastically reduce its debt burden, and there has been much maneuvering by politicians seeking to rein in the debt without jeopardizing

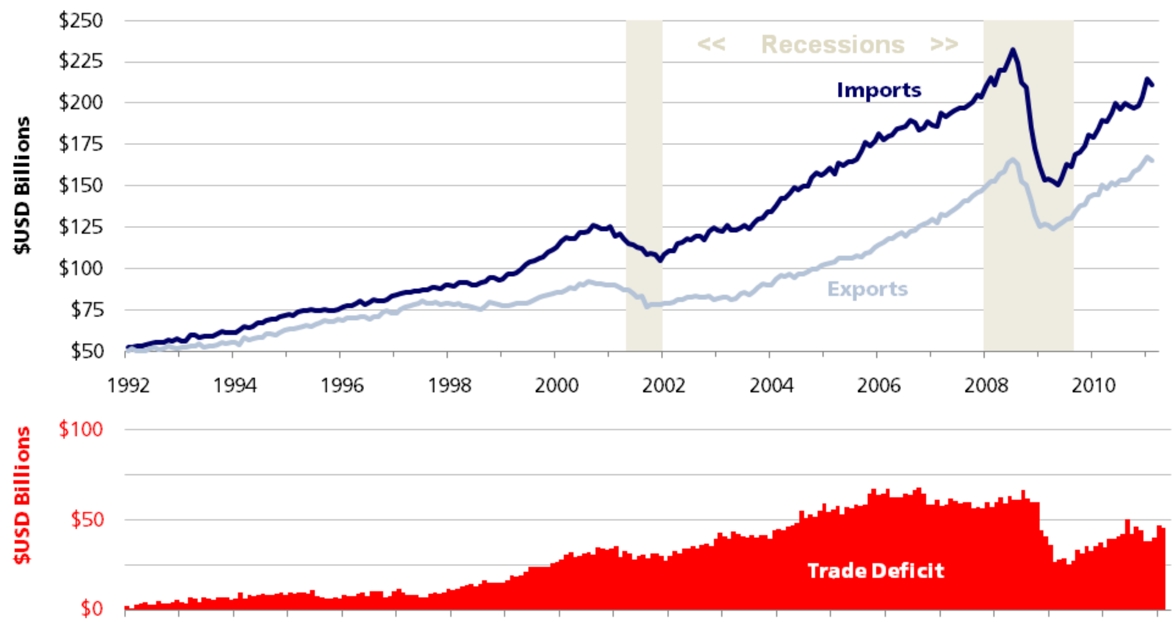
First Quarter Earnings Season Has Been An Absolute Blowout

Sector	Reported			Earnings Growth			Earnings Surprise		
	Actual	/	Total	Percent	Positive	Negative	Percent	Positive	Negative
Energy	26	/	41	42.3%	16	5	3.5%	14	10
Materials	24	/	30	53.6%	19	4	12.5%	20	3
Industrials	50	/	59	34.8%	31	12	9.7%	38	7
Consumer Discretionary	48	/	79	18.0%	36	9	9.0%	34	9
Consumer Staples	21	/	41	6.2%	16	5	0.6%	11	4
Health Care	37	/	52	6.9%	34	3	9.2%	34	2
Financials	59	/	82	42.3%	37	11	7.1%	44	12
Information Technology	45	/	75	30.1%	31	12	9.9%	33	6
Telecommunication	3	/	8	1.1%	0	2	5.4%	2	0
Utilities	11	/	33	0.7%	6	5	3.0%	6	4
S&P 500	324	/	500	22%	239	64	7.2%	236	57

Source: Bloomberg, Standard & Poor's, FactSet their re-election hopes. Our view has been that the market ultimately will force its own discipline and the necessary fiscal austerity despite political gamesmanship; the S&P pronouncement is evidence that the market is in control. Further, it has been proven over time and across borders that fiscal austerity — or at least fiscal responsibility — actually promotes economic growth.

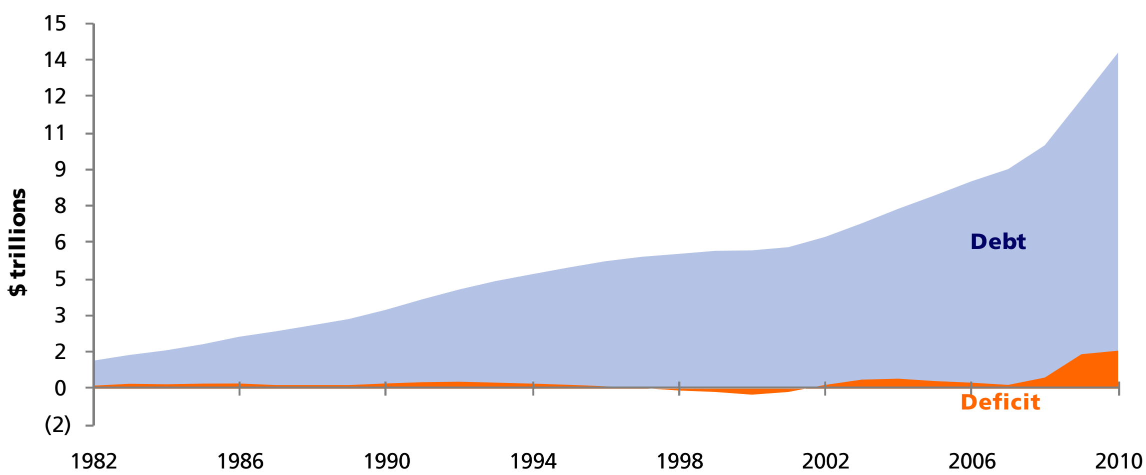
We know that April showers bring May flowers. From a global perspective, most stock markets are being showered with positive corporate earnings, robust M&A activity and a veritable manufacturing boom. Given these conditions, investors too fearful to venture out into the rain are the ones most likely to end up all wet. ■

It's About Total Trade, Not Just Imports And Exports



Source: FactSet

The Market Demands Discipline On U.S Debt And Deficits



Source: FactSet