Market Update

March 31, 2011

Capital markets' returns for the first calendar quarter were very much in line with predictions made at the end of 2010. The S&P 500 was up 5.5%, NASDAQ was up 4.8%, developed international markets were up 2.9%, emerging markets were up 0.9% and fixed income markets were down less than 1.0%. All in all, a routine quarter, or so it would seem based solely on the returns cited above.

However, if one had known at the beginning of the year of the cascading uprisings spreading across North Africa and the Middle East and the earthquake, tsunami and radioactivity afflicting Japan, it is unlikely that anyone would have expected capital markets to behave as they did. Foreknowledge of these events would have produced predictions of higher commodity prices, particularly oil. In spite of the scope of these humanitarian crises, the capital markets seemed to absorb the information and continued higher.

The reactions of monetary authorities around the world have been remarkably consistent during these and earlier crises through the provision of a great deal of money within the affected region. The Japanese central bank has added huge amounts to the banking system, the European Central Bank has provided substantial funds to failing Irish Banks, and the Federal Reserve has continued to purchase U.S. Treasury Securities as part of its Quantitative Easing II program, (the continuation of its bailout of the U.S. banking system begun in the Fall of 2008).

In the months to come, the most important economic variable to track is obviously the direction of monetary policy at central banks around the world. As long as liquidity keeps being added to the global financial system, markets will act more or less in line with expectations. Should that process reverse, markets will become unpredictable and will require constant attention. That is what we intend to do as we move through this year.

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