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Equity Market Rebound Triggers Cautious Optimism

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Global equity benchmarks enjoyed their best October monthly return since 1982, according to Farmers and Merchants Trust Company's October Economic Commentary. This massive rebound, coupled with an easing in the U.S. bond market, has sparked a glimmer of optimism for investors despite prevailing uncertainty surrounding the health of the global economy.

"The rebound of the global equity market was an unexpected success story following an extended period of uncertainty and decline," said Jay Ferrara, vice president and investment officer with FMTC. "Despite this recovery, we expect investors to pursue defensive investment strategies in lieu of ongoing uncertainty surrounding debt, unemployment and market volatility.

Key developments for the month of October include the following:

- Equity benchmarks posted their highest October return since 1982, following a five-month decline.
- 10-Year U.S. Treasury edged up to 2.3% following a decline in September. This signals an easing in the bond market, however not at the expected rate given the strength of the equity market.
- U.S. Corporate earnings for Q3 exceeded expectations, largely due to a lowering of estimates during the summer.
- The unemployment rate continues to hover near 9%, with more than 45 million Americans receiving food stamps.
- U.S. economic growth in 2012 will remain subdued, while Europe stands at risk to slide into a new recession.
- The U.S. debt level now exceeds \$15 trillion, with Social Security, Medicare and Medicaid pushing total commitments near \$70 trillion.
- Foreclosure activity has begun to reaccelerate while property values continue to decline.

Following positive news for equity, bonds and corporate earnings, the stability of the global economy continues to hinge upon the European debt crisis. "Hopes are still tied to a European solution for Greece, Portugal, Spain and Italy, yet many questions remain regarding the feasibility of a comprehensive package," said Ferrara.