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Market and economy continue in uptrend

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For the first quarter of 2012, markets showed strong growth. The S&P was up 12.1 percent, 6.2 percent from the same time a year ago. The Dow was up 8.1 percent, 7.2 percent from a year ago, and the NASDAQ was up 18.7 percent, 11.2 percent from a year earlier.

However, volumes were light - not what an investor would want to see. NYSE volume was the lowest since the fourth quarter of 2007, and down 14.5 percent from a year ago as investors remained cautious. The DJ world, excluding the U.S. was up 10.8 percent, demonstrating that despite all the news, growth outside the U.S. was strongest, with emerging markets showing particular strength.

The strength in the U.S market was a reflection of the economic gains in the U.S. economy. While GDP growth in the fourth quarter of 2011 was slightly below expectations, nevertheless the growth was a revised 3.0 percent. January 2012 personal spending rose .4 percent, followed by February's .8 percent,

Some of the spending increase came from higher energy prices, which rose 3.6 percent in February alone, the largest gain in a year. Federal Reserve officials acknowledged that the increase in fuel costs would "push up inflation temporarily," but they anticipated that prices would return to their long-term target. The core PCE index, which excludes food and energy prices, moved up 1.95 year over year in February after moving up .1 percent in January. These numbers are within the Fed's target range.

Personal saving fell to 3.7 percent, from 4.3 percent in the prior month. A lower savings rate could be a sign of higher consumer confidence, and indeed a separate report showed that consumer confidence jumped to its highest level in more than a year. The Thompson Reuters/University of Michigan consumer sentiment index measure 76.2, the best reading since February 2011.

The ISM index was 53.4 up from 52.4 in the prior month. Europe rose on the strength of the U.S. numbers.

Existing home sales are showing a slight uptick, with the shadow inventory of homes in foreclosure and delinquent declining.

Globally concerns linger over the European sovereign debt crisis. A temporary fix is in place, but for how long? Even Germany has joined the call for higher fire walls to protect the Euro zone.

Meanwhile, German unemployment reached its lowest level since 1990, and domestic demand has increased strongly as Germany bounces back on the strength of its export led economy. Investment in equipment and buildings has also risen. Germany remains the bright spot in Europe as much of Europe remains weak.

Decelerating growth in China is weighing on Asia, although we believe that Asia and some emerging markets offer investment opportunities.

The high price of oil will continue to be a drag on both the domestic and global economies. The International Energy Agency warned that the high price of oil was overtaking the sovereign debt crisis as the biggest problem in the European Union. The price of oil is expected to remain high and perhaps move higher, particularly with the continuing problems in the Middle East.

Domestically, the spot light is moving to the political arena. With the Democratic candidate fixed, the Republicans finally seem to be focusing on Romney as their standard bearer. As of this writing President Obama appears to be headed for reelection, but it is a long way to November. The Republicans may win the Congress.

President Obama's signature issue, health care, is currently the subject of argument before the U.S. Supreme Court. The court set aside three days for arguments. The principal focus is the mandated health insurance provision. The secondary argument focuses on whether the entire Act should fail if the health insurance provision fails. The Court appears nearly evenly divided, with Justice Kennedy the likely swing vote in a likely 5-4 decision.

Justice Kennedy seems to be telegraphing hostility to the mandate based upon his notions of how far government can regulate the lives of individuals. Government lawyers argue that the Commerce Clause of the constitution gives the Court that power, and that the judges have strong precedents to back them up. But the justices appear skeptical, one justice even questions where the line is drawn. For example, if people can be required to buy insurance, can they also be required to buy certain kinds of food? Whatever the outcome, it will be a landmark decision in the law with extensive consequences for the future of government power and regulation.

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