

WeeklyMarket Update



General Market News

- The Federal Open Market Committee (FOMC) meeting minutes will be released on August 31. The minutes should give us more detail in terms of what the Fed believes may be the more troubling issues in the overall economy.
- Last Tuesday morning, Treasury yields were down significantly on much lower housing numbers; the existing home sales release showed a decline of 27 percent.
- The Federal Reserve purchased 2-year and 4-year Treasuries last Tuesday as well, which pushed the 2-year to a new historic low of 0.462 percent.
- On Wednesday, the 10-year Treasury reached its lowest point since January 2009—2.4509 percent—before bouncing back to 2.541 percent on Thursday morning.
- Corporate investment-grade yields were below 3.80 percent, a new historical low, according to the Bank of America Merrill Lynch Index. Investment-grade spreads over similar Treasuries are about 208 basis points for 15-year debt, up slightly from the April 21 low of 167 basis points.
- Lehman, which filed for bankruptcy protection in September 2008, has told debt holders to expect between \$0.15 and \$0.44 on the dollar after all is said and done. Most of Lehman's debt is trading at \$0.20 on the dollar.
- Equity indices, for the most part, were down last week; the exception was the Russell 2000 Index, which posted a modest gain.
- The S&P tested the 1,040 support level twice during the week, but it bounced higher both times.
- Current equity valuations, on average, are 30-percent below their five-year historical averages.
- Mergers and acquisitions activity appears to be picking up again, which reflects some positive sentiment from corporations, but on its own, it probably isn't enough to move markets meaningfully higher.

% Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500 Index	-0.70%	-3.40%	-4.50%	3.30%
Nasdaq Composite	-1.20%	-4.50%	-5.10%	6.20%
Dow Jones Industrial Average	-0.60%	-3.00%	-2.70%	5.90%
MSCI EAFE	-0.70%	-3.70%	-10.10%	-4.20%
MSCI Emerging Markets	-2.20%	-2.60%	-2.40%	14.50%
Russell 2000	1.00%	-5.20%	-1.40%	5.70%

Market Index Performance Data (continued)

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Aggregate	0.71%	7.37%	9.86%
U.S. Treasury	1.17%	7.82%	7.63%
U.S. Mortgage-Backed Securities	-0.15%	5.20%	6.95%
Municipal Bond	2.18%	6.88%	9.98%
U.S. Treasury: U.S. TIPS	0.97%	5.57%	9.52%



What to Look Forward to

The **FOMC Meeting Minutes** will be released on August 31. Investors will look to see if there is any change in the tone of the discussion. Last week, Chairman Bernanke tried to clarify what some investors considered to be an inconsistent message from the Fed. He stated that “the Federal Reserve is already supporting the economic recovery by maintaining an extraordinarily accommodative monetary policy, using multiple tools.” But, Bernanke assured investors, “should further action prove necessary, policy options are available to provide additional stimulus.”

ISM Manufacturing and **Construction Spending** are worth watching. Both seem to be facing stiff headwinds and are expected to give up ground. Manufacturing indicators have generally showed slowing growth, while construction is being challenged by an extremely weak housing market.

Nonfarm Productivity is expected to be revised down from -0.90 percent to -2 percent for the second quarter. This would be further evidence that the ability of businesses to squeeze extra output from the existing workforce is limited, and it could perhaps foreshadow an uptick in future employment.

Unfortunately, analysts are not painting a very rosy picture for employment in August. The **Unemployment Rate** is expected to rise a tenth of a percentage point to 9.60 percent. **Nonfarm Payrolls** are anticipated to fall by 105,000. Slightly more encouraging are expectations for **Private Payrolls**, which experts believe will improve by 46,000. This would be less than what we saw in July, however, and not nearly enough to turn the employment situation in the right direction.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Barclays Capital Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Barclays Capital Mortgage-Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Barclays Capital Municipal Bond Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. The Barclays Capital U.S. Treasury Inflation Protected Securities (TIPS) Index measures the performance of intermediate (1- to 10-year) U.S. TIPS. Rev. 8/10.

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