

Weekly Market Update



General Market News

- Federal Reserve Chairman Ben Bernanke appeared before Congress’s Finance Committee last week. Though he chose his words carefully, he mentioned that “the economic outlook remains unusually uncertain.” These comments sent Treasury yields tumbling.
- On Wednesday, the 2-year note hit a new bottom for the second week in a row—0.556 percent—before rebounding slightly on Thursday to reach 0.572 percent. The 10-year and 30-year notes were back below 3 percent and 4 percent, respectively, as the 10-year touched 2.80 percent last Wednesday.
- Yields on municipals have been attractive for a few weeks, mostly on the long end of the curve. Treasury spreads have also become attractive, as yields have fallen.
- Equity markets reversed trend yet again last week and posted some solid gains; the small-cap asset class led the way.
- The S&P 500 remained trapped between the 50-day and 200-day moving average, as other major indices—the Dow, the Nasdaq, and the Russell 2000—all moved above their 200-day moving averages during the week.
- The tug of war between top-down analysis and bottom-up fundamental analysis of the stock market became more pronounced last week, as Fed Chairman Ben Bernanke and corporate earnings grabbed the headlines. Bottom-up fundamental analysis took top honors.

% Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	% Change 12 Months
S&P 500 Index	3.60%	7.00%	-1.10%	12.90%
Nasdaq Composite	4.20%	7.60%	0.00%	15.00%
Dow Jones Industrial Average	3.20%	6.70%	0.00%	14.90%
MSCI EAFE	0.90%	7.20%	-8.50%	4.30%
MSCI Emerging Markets	2.60%	6.00%	-1.60%	18.40%
Russell 2000	6.60%	6.80%	4.00%	19.20%

Market Index Performance Data (continued)

FIXED INCOME

Index	Month-to-Date (MTD) %	Year-to-Date (YTD) %	12-Month %
U.S. Aggregate	0.66%	6.03%	9.14%
U.S. Treasury	0.39%	6.27%	6.84%
U.S. Mortgage-Backed Securities	0.54%	5.02%	7.35%
Municipal Bond	1.05%	4.40%	9.21%
U.S. Treasury: U.S. TIPS	-0.48%	3.91%	9.36%



What to Look Forward to

This week opened with more housing news. Based on somewhat more positive signs, analysts had predicted a relatively modest 6.70-percent increase in **New Home Sales**, following May's 32.70-percent freefall. Sales actually surged 23.60 percent.

Investors will be watching the **Dallas Fed Manufacturing Activity** index to see if the recent slowing in manufacturing that we've been witnessing will continue. Wednesday's **Durable Goods Orders** are expected to rise 0.70 percent, which would be a small, positive sign for the manufacturing sector.

Also on Wednesday, the **Fed Beige Book** will be published. This report, which comes out eight times per year, gathers anecdotal information on

economic conditions in each Fed district. It offers insight into a variety of sectors from tourism to commercial real estate.

GDP QoQ advance estimates are set to be released on Friday. Expectations are for a 2.50-percent annualized expansion, which would be a slight downgrade from the 2.70-percent rate we saw in the first quarter. A small reduction in gross domestic product would not be much of a surprise, as it would follow the lead of many other economic indices, which have been signaling a slower pace of expansion. Likewise, **Personal Consumption** is expected to have decreased from 3 percent in the first quarter to 2.30 percent in the second quarter. Given the important role of the consumer in America's economy, investors hope to see continued but moderate growth in consumption.

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. 7/10.

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