

WeeklyMarket Update



General Market News

- We continue to see downward pressure, as investors reach out to capture yield; they receive 100 basis points more by moving out from 10 years to 15 years.
- In a speech delivered at a conference in Portland, Oregon, John C. Williams, executive vice president and research director for the Federal Reserve Bank of San Francisco, said he believes the economy has hit a “rough patch.”
- The 10-year Treasury ended the week below 3 percent once again. We should continue to see downward pressure here going forward.
- The investment-grade sector has performed well year-to-date, yielding a 7.09-percent return. Most of the returns have come from the longer end of the curve, with intermediate and long credit returning 6.38 percent and 8.83 percent, respectively, year-to-date.
- High-yield had a strong July, returning 3.56 percent for the month. This sector has returned 8.23 percent year-to-date and 25.09 percent in the last 12 months.
- While equity markets got off to a strong start last week, they finished flat after performance weakened in the second half of the period.
- Strong earnings results helped push markets higher, but the good news was not enough to overcome technical resistance at the 200-day moving average on the S&P 500.
- Economic reports and the Fed’s Beige Book were released last week and continued to show that the economy is growing, but at a slower pace.
- With so much focus on the employment and jobs market, Friday’s payroll and unemployment rate reports will be watched closely. Recent weekly reports have been mixed, so we don’t really know what to expect.



Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500 Index	-0.10%	6.90%	-1.20%	11.60%
Nasdaq Composite	-0.65%	6.90%	-0.60%	13.60%
Dow Jones Industrial Average	0.40%	7.10%	0.40%	14.30%
MSCI EAFE	2.21%	10.20%	-6.00%	5.30%
MSCI Emerging Markets	1.27%	8.30%	0.40%	19.20%
Russell 2000	0.04%	6.80%	4.10%	16.70%

Market Index Performance Data (continued)

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Aggregate	0.74%	6.11%	9.45%
U.S. Treasury	0.18%	6.04%	7.31%
U.S. Mortgage-Backed Securities	0.80%	5.29%	7.81%
Municipal Bond	1.22%	4.57%	9.30%
U.S. Treasury: U.S. TIPS	-0.51%	3.88%	9.98%



What to Look Forward to

On Monday, **ISM Manufacturing** slid from 56.2 in June to 55.5 in July. The result continues the trend of growth deceleration in this sector. **Construction Spending (MoM)**, on the other hand, which was expected to decline 0.50 percent, unexpectedly rose 0.10 percent. Equity markets responded favorably, and the S&P 500 was up as much as 1.90 percent in early trading.

On Tuesday, **Personal Income** and **Personal Spending** are anticipated to rise 0.20 percent and 0.10 percent, respectively. It seems unlikely that income could rise very much given the downward pressure exerted by the current oversupply of labor. It's more likely that we would see increasing **Weekly Hours** and decreasing unemployment first. **Factory Orders** are expected to remain unchanged, which would be a welcome relief after May's 1.40-percent loss.

Investors are waiting impatiently for Friday's **Change in Nonfarm Payrolls** and **Unemployment Rate** releases. Payrolls are expected to fall 60,000, and the unemployment rate is expected to creep up 0.10 percent to 9.60 percent. Many economists argue that we would need to see sustained 3-percent to 3.50-percent gross domestic product growth to make a real dent in unemployment. Recently, newly unemployed workers have seemed to have a decent shot at getting jobs. But those who have been unemployed for a long time are having difficulty finding positions. As a result, the average duration of unemployment is now 45 weeks, compared with just over 15 weeks in 2007. Not only is this a social issue, but it also threatens the economy as a whole.

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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