

Week Ending August 13, 2010 Market Review

Stocks fell throughout the week as worries intensified that global growth is slowing. Investors sold off commodities and riskier currencies amid a flight to safety that sent the U.S. dollar, U.S. Treasuries, the Japanese yen and gold higher. The U.S. Federal Reserve Board's downgrade of its assessment of the U.S. economy and its vow to stop shrinking its securities portfolio intensified concerns about a fading recovery. Another poor jobs report and a profit warning from technology giant Cisco Systems on Thursday accelerated the equity decline. The 10-year Treasury bond yield closed at 2.68 percent, down 14 basis points for the week. Technology, industrials and financials were the poorest performing sectors while telecom, consumer staples and utilities held up best. Amid this environment the DJIA was down -3.3%, the S&P 500 was down -3.8%, the Russell 2000 was down -6.3%, the MSCI EAFE was down -4.8% and crude oil fell -6.6%.

The Fed said this week that "the pace of economic recovery is likely to be more modest in the near term than had been anticipated." The central bank said it will buy U.S. Treasuries with proceeds from mortgage holdings. It set a \$2.05 trillion floor on its holdings of government bonds and housing debt to buoy an economic recovery. The Fed's statement followed a government report last month that showed the recession that started in December 2007 was worse than estimated. An unexpected increase in jobless claims this week added to evidence that the economy is weakening. The number of U.S. workers making new claims for jobless benefits climbed last week to the highest level in six months. Initial unemployment claims rose by 2,000 to 484,000 in the week ended August 7, according to the U.S. Department of Labor. Also this week, reports showed personal incomes fell in the United States last year, except in areas with a high concentration of federal government and military jobs. Retail sales rose less than forecast in July as a lack of jobs caused consumers to hold back on spending. Sales rose 0.4%, led by autos and gasoline. Economists predicted a 0.5% gain. The cost of living in the United States rose for the first time in four months as the Consumer Price Index increased 0.3%, the most in a year. The gauge, excluding volatile food and energy costs, rose 0.1%.

Cisco Systems' revenue from its latest quarter and its forecast for future revenue fell short of analysts' expectations. Freddie Mac reported a second-quarter loss of \$4.7 billion and asked the United States for \$1.8 billion more in aid. Disney posted strong earnings and revenue growth aided by hit movies and an improving economic climate. Deal activity rose this week, boosting hopes that U.S. companies are ready to put their \$1.8 trillion of stockpiled cash to work. The Blackstone Group agreed to buy Dynegy for \$4.7 billion, and International Business Machines said it would acquire Unica for about \$480 million.

Europe's economy expanded more than economists forecast in the second quarter as the fastest growth in Germany in two decades powered the region's recovery. The eurozone's gross domestic product increased 1% from the first quarter when it rose 0.2%. This is the fastest growth rate that the 16-country region has experienced in four years, and it is the first time eurozone growth has outpaced that of the United States since the second quarter of 2009. Germany's exports surged in June to near prerecession levels. China pushed its

currency sharply lower on Thursday; the move essentially wiped out gains the yuan had made since the Chinese government loosened its peg against the dollar in June. The country's trade surplus rose in July to its highest level in a year and a half.