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Weekly Market Commentary by Emmett Wright

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After four punishing weeks, investors were more than ready for a rebound, and all of the major indexes finished sharply up last week, perhaps less because of any positive news than the lack of anything particularly disappointing or alarming. That said, there was a lot going on, from an earthquake and a hurricane on the East Coast; to major stories involving household names such as Jobs, Buffett, Strauss-Kahn, and Bernanke; to near-victory for the rebels in Libya.

	Key Market Data		
	Week ending…		
	8/19/11	8/26/11	Change
Dow Jones Industrial Average Index	10,817.65	11,284.54	+4.32%
S&P 500 Index	1,123.53	1,176.80	+4.74%
NASDAQ Composite Index	2,341.84	2,479.85	+5.89%
10-Year Treasury Note Rate	2.073%	2.192%	+0.119 pct. pts.
NYMEX Crude Future (Barrel)	$82.26	$85.37	+3.59%
Euro/U.S. Dollar	$1.4395	$1.4499	+$0.0104

Investors spent most of the week waiting to hear what Benjamin Bernanke, the chairman of the Federal Reserve, would have to say at the Fed's annual symposium in Jackson Hole, Wyoming. The expectations were high because of what he had said last year – hinting that the Fed was ready to take a next step which turned out to be its second round of quantitative easing – as well as an almost desperate need for some, make that any, good news. When Mr. Bernanke finally spoke, the stock market was at first underwhelmed, with the Dow falling as far as 221 points, but by the end of the day investors seemed to have warmed to his message, driving that index up 134.72 points to close the week on a high note.

Overall, Mr. Bernanke was generally upbeat but short on specifics. He admitted that the economy was not in the best of shape but didn't mention a double-dip and said "growth in the second half looks likely to improve." He said the Fed was ready to take more action if need be with a "range of tools," without saying what that action would be. He agreed that housing and unemployment seemed intractable, but also noted they were problems beyond the Fed's purview: "Most of the economic policies that support robust economic growth in the long run are outside the province of the central bank," he said. And in the remarks that seemed to resonate most, he chastised politicians for the recent debt-ceiling drama, saying their actions had "disrupted financial markets and probably the economy as well," while adding that, "The country would be well served by a better process for making fiscal decisions." Lastly, Mr. Bernanke said that the Fed's next meeting would now be for two days rather than one (September 21 and 22) to allow for what he described as "a fuller discussion."

Two days later, Christine Lagarde, the president of the International Monetary Fund, took the podium in Jackson Hole and likewise took policymakers to task for not being more proactive during the recovery. Her outlook was generally more bleak, however, as she warned that, "The downside risks to the global economy are increasing," and added, “The new stakes are clear: we risk seeing the fragile recovery derailed.”

Earlier in the week, while Mr. Bernanke was still working on his speech, there were plenty of other noteworthy stories, beginning with Steve Jobs announcing he would step down from his position as Apple’s CEO because of ill health, leaving investors to weigh the impact of the change on one of the world’s most successful and innovative companies. Mr. Jobs has been replaced by the company’s COO Tim Cook (who has twice before served as acting CEO when Mr. Jobs took medical leaves of absence).

The sexual assault charges against Dominique Strauss-Kahn, the former head of the IMF and the one-time frontrunner to be the Socialist Party’s candidate for the French presidency, were dropped after questions about the reliability of the witness arose. However, there’s still a real possibility that he will face a round of similar charges stemming from an earlier incident when he returns to France.

The week after making news with his op-ed piece in support of higher taxes on the wealthy, Berkshire Hathaway’s chairman and CEO Warren Buffett made headlines again with a $5 billion investment in the beleaguered Bank of America, the nation’s biggest bank, which buoyed the bank’s stock – and the stock market as a whole.

Two other high-profile financial figures were also in the news. First, it was revealed that Lloyd Blankfein, the CEO of Goldman Sachs, had hired a prominent criminal defense attorney which made investors nervous, especially as no charges have been filed against him. And it was announced that Deven Sharma, the president of S&P, will step down and be replaced by Douglas Peterson on September 12. The move was said to have been in the works for some time and reportedly had nothing to do with the fallout of the debt downgrade or any pending investigations of the firm.

In other news, the Commerce Department revised its estimate for second-quarter growth down to 1% from 1.3%, as forecast, mainly because of lower exports and smaller business inventories. That means the economy grew just 0.7% for the first six months of the year. On the plus side, both consumer spending and business investment were revised upward. Estimates for the second half of the year range from 1.5% to 2.0%.

The nonpartisan Congressional Budget Office said the unemployment rate will remain above 8% until 2014 (it’s 9.1% now). The CBO also lowered its estimate of the total deficit over the next decade based on the recent tax deal, but warned that extending the Bush tax cuts would more than offset any expected savings.

The Commerce Department reported that durable goods orders rose 4% in July, the biggest jump since March, largely because of orders for aircraft (up 43.4% after falling in June) and automobiles (up 11.5%, the most since 2003). Without autos and aircraft, demand only increased 0.7%.

The Census Bureau reported that sales of new homes fell from a revised annualized rate of 300,000 in June to 280,000 in July as the median sales price dipped to $222,000. And the Mortgage Bankers Association said the number of American households that are behind on mortgage payments is on the rise again, with 12.87% of homes at least 30 days late or in foreclosure at the end of the second quarter.

And in a sign of just how jittery consumers are, the Thomson Reuters/University of Michigan consumer confidence index fell to its lowest point since November 2008 when the recession was in full swing.

The debt crisis in Europe took a new turn on a number of fronts last week. First, Finland has been refusing to sign off on the second bailout for Greece unless it gets some sort of collateral against the loan. Finland is only expected to contribute about 2% of the €110 ($158.6) total, but the vote for the bailout has to be unanimous and so far it has been unwilling to back down. Meanwhile the Greeks have made a demand of their own, saying that before they accept the second bailout they want at least 90% of current Greek bondholders to swap those bonds for ones with a lower rate or longer date of maturity, a step that's voluntary (and which few bondholders have taken). Some pundits have suggested that at this stage the best bet for Greece would be to withdraw from the EU and go back to using the drachma until its economic woes have been addressed, after which it could rejoin the Union. And Spain's political parties, acting on the recent suggestion made by the French President Nikolas Sarkozy and the German Chancellor Angela Merkel, have agreed on a constitutional amendment to cap the nation's deficit, though the mandated rate has yet to be determined.

At the beginning of the week Merkel reiterated her opposition to the Eurobond in a TV interview, saying, "The markets want to force us to do certain things. That we won't do. Politicians have to make sure that we're unassailable, that we can make policy for the people." The Germans, ever skeptical, believe that Eurobonds would make it easier for governments to shirk fiscal responsibility. They also think that throwing in their lot with the weaker economies will hurt them the most as Germany has Europe's strongest bonds with the lowest yields. However, some analysts believe that a Eurobond would be attractive enough to rival U.S. Treasurys as a safe haven, and the increased purchasing that would ensue might actually lower the rate Germany pays on its bonds. Either way, the idea is bound to stay alive as long as there's doubt about Greece, et al, which seems unlikely to fade anytime soon. However, even supporters of the Eurobond admit they could probably not be issued in time to make a difference with the current crisis.

In stark contrast to America, France has acted decisively to confront its slowing economy and the possibility of losing its AAA credit rating with a series of tax measures that will close loopholes for corporations and the wealthy while raising taxes on alcohol, cigarettes and sugary drinks, among other measures.

Moody's cut Japan's credit rating to Aa3 from Aa2 because of a large deficit and recent debt, as well as political uncertainty (S&P had already lowered its rating to AA-). By week's end the picture had become even more murky after Prime Minister Naoto Kan announced he was resigning as head of the Democratic Party of Japan.

Finally, surveys of industrial managers showed that growth in both China and Germany, the current eastern and western economic dynamos, may be slowing down, in China partly because the government is working to contain growth due to the inflation that has come along with it.

A look ahead

This will be a big week for updates as kids start to go back to school and we head for the Labor Day weekend, the official end of summer. There will be new reports on personal income and spending, including personal income expenditures (PCE). Regarding housing, there will be updates on mortgage applications, pending home sales, construction spending, and the S&P/Case Shiller metropolitan price index. There will also be the latest on factory orders, the Institute for Supply Management's manufacturing index, vehicle and chain-store sales, and nonfarm productivity. The Fed will release the minutes of its last meeting, which should make for interesting reading as three board members were against extending the benchmark rate for another two years. And on Friday, the Labor Department will release the jobs data for August, with the unemployment rate expected to remain unchanged at 9.1%.

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All index references and performance calculations are based on information provided through Bloomberg. Bloomberg is a provider of real-time and archived financial and market data, pricing, trading, analytics, and news.

The Dow Jones Industrial Average Index® is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Standard and Poor's 500 Index® (S&P 500®) is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Standard & Poor's offers sector indices on the S&P 500 based upon the Global Industry Classification Standard (GICS®). This standard is jointly maintained by Standard & Poor's and MSCI. Each stock is classified into one of 10 sectors, 24 industry groups, 67 industries and 147 sub-industries according to their largest source of revenue. Standard & Poor's and MSCI jointly determine all classifications. The 10 sectors are Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Telecommunication Services and Utilities.

The NASDAQ Composite Index® Stocks traded on the NASDAQ stock market are usually the smaller, more volatile corporations and include many start-up companies.

NASDAQ - National Association of Security Dealers Automated Quotations. The NASDAQ is a computer-operated system owned by the NASD that provides dealers with price quotations for over the counter stocks.

Bear market calculations and interpretations are derived from data supplied by Ned Davis Research, Inc.

The International Monetary Fund (IMF) is the intergovernmental organization that oversees the global financial system by following the macroeconomic policies of its member countries, in particular those with an impact on exchange rate and the balance of payments.

The S&P/Case-Shiller Home Price Indices are designed to be a reliable and consistent benchmark of housing prices in the United States. Their purpose is to measure the average change in home prices in a particular geographic market. They are calculated monthly and cover 20 major metropolitan areas (Metropolitan Statistical Areas or MSAs), which are also aggregated to form two composites – one comprising 10 of the metro areas, the other comprising all 20.

Thomson Reuters is an information company combining industry expertise with innovative technology to deliver critical information to leading decision makers in the financial, legal, tax and accounting, healthcare, science and media markets.

The University of Michigan Consumer Sentiment Index is a consumer confidence index published monthly by the University of Michigan and Thomson Reuters. At least 500 telephone interviews are conducted each month of a United States sample which excludes Alaska and Hawaii. 50 core questions are asked.

The Institute for Supply Management is a not-for-profit U.S. association for the benefit of the purchasing and supply management profession, particularly in the areas of education and research.