

Weekly Market Summary

On Tuesday, Feb. 21, we learned that Greece will receive €130 billion in a bailout that is expected to return anywhere between a 70-percent and a 74 percent loss to debt holders and require Greece to shrink its debt-to-gross domestic product ratio to 120.5 percent by 2020. Read more now in our [Weekly Market Summary](#) (PDF, new window).

Weekly Market Update – 2/15/2012

Treasury yields were higher for most of last week on stronger employment numbers and optimism coming out of Europe. Late Sunday, we learned that Greece had voted into law austerity measures of up to €130 billion.

European equity markets reacted favorably to this news on Monday, and U.S. equity futures were looking higher before the market opened. [Read more now](#) (PDF, new window).

Market Update for the Month

Ending Jan. 31, 2012: Off To a Great Start

January got the year off to a great start. The S&P 500 Index was up 4.48 percent while the Dow Jones Industrial Average climbed 3.55 percent. Clearly, the risk-on trade has returned, as this was the best January market performance since 1997.

The strong market action occurred despite somewhat disappointing corporate earnings results. Although only about one-third of S&P 500 companies have reported, only 59 percent have beaten estimates, which is less than the typical 68 percent to 75 percent. That said, the overall earnings growth rate so far for the fourth quarter has been 7.9 percent, which is up from previous levels, suggesting that companies that are beating estimates are doing so by wider margins.

Technically, equity markets are showing signs of continued strength. The S&P 500 remains above its 200-day moving average, and the 50-day moving average has just crossed above the 200-day as well, a phenomenon known as the "golden cross." The next resistance level appears to be around 1,350, suggesting some room for further price appreciation.

International markets performed even better than domestic investments, with the MSCI EAFE Index up 5.33 percent and the MSCI Emerging Markets Index up 11.24 percent for the month. Given the diversity of the markets and economies included in these indices, it is difficult to draw general conclusions, but it does seem that concerns about global growth and European debt issues have eased. Technically, the EAFE remains below its 200-day moving average, but the emerging markets index has recently crossed above, suggesting that investors may have more confidence in the emerging market space.

Signs of life in the U.S. economy

On the whole, economic data was positive in the first month of the new year. Most notably, the employment situation showed signs of improvement, with the unemployment rate falling to 8.5 percent and strong gains in payrolls. The unusually mild winter weather in the northern states may have accounted for some of this trend, but unemployment has clearly continued to plod downward from its peak of 9.9 percent in December 2009. A rise in personal income and a reduction in initial jobless claims also implied better times for U.S. workers.

The manufacturing sector persisted, rebounding off its third-quarter weakness, according to data from the Institute for Supply Management. Both new orders and production rose at a faster pace than in the previous month, and anecdotal forecasts were upbeat. On the other side of the coin, housing continued to drag on economic prospects, with home prices falling 0.7 percent on a seasonally adjusted basis.

The initial estimate of U.S. gross domestic product (GDP) for the fourth quarter of 2011 was released in mid-January. GDP was estimated at 2.8 percent, annualized, which would be the best since mid-2010. Strong consumer spending on durable goods suggested improving confidence and demand, although a large contribution from inventory purchases could prove more transitory. GDP reports have tended to be revised downward in recent quarters, so, while a

recession appears to have been averted, it is unclear whether economic growth was robust or merely marginal in the fourth quarter.

Fixed income dominated by Fed actions

Rates remained at historically low levels in January, supported

by the Federal Reserve's (Fed) announcement that it was committed to keeping rates low through 2014. Treasuries rallied at the end of the month, with 10-year yields ending below 2 percent. Municipal bonds also started the year on a positive note, as investors sought perceived safety at more attractive yields than Treasuries.

A new factor in this space was the release of economic projections by Fed board members and bank presidents. The projections called for only modest growth over the next several years and included a downward adjustment from projections made last November. This was perceived in a positive light by investors, who viewed a more conservative Fed outlook as supportive of continued low interest rates.

Europe—the never-ending story

The European situation continued to evolve in January. Negotiations for the Greek bailout continued, with pressure applied to public agencies to share in the pain by taking a haircut on their positions. The European Central Bank so far has refused to do so, and this remains a key uncertainty in how the issue will be resolved. Either way, it appears that the situation will come to a head in the next several months, as pending refinancing needs may force some sort of decision.

Some positive news has come from the continued progress of negotiations over standardizing fiscal practices across much of the European Union, which may in turn lead to further German support of the debtor countries. The situation remains uncertain, however, and substantial risks remain.

A strong start but continued uncertainty

Although the markets had a strong start to the year, and many of the economic indicators are surprisingly good, uncertainty

remains. In the U.S., consumer spending is the biggest item to watch, as the December figures were weaker than expected despite the relatively strong performance overall. Europe remains a risk, too. Nonetheless, the overall signs for the U.S. economy and markets are positive, and, although we can expect volatility to persist, our overall expectation is now cautiously optimistic.

Disclosure: 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. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. 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 Free 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. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners.

###

Authored by Brad McMillan, vice president, chief investment officer, at Commonwealth Financial Network.

Securities and Advisory Services offered through Commonwealth Financial Network®, Member FINRA, SIPC, a Registered Investment Adviser. Fixed insurance products and services offered by Allen Insurance and Financial are separate and unrelated to Commonwealth.

Weekly Market Summary – 2/1/12

Equity markets were mixed last week, as correlations among the various indices we track fell. The S&P 500, for example, gained just 0.09 percent, while the technology-heavy Nasdaq gained more than 1 percent.

The Federal Reserve (the Fed) announced last week that it plans to keep benchmark fed funds rates at current levels at least through late 2014. [Read more now.](#)

Weekly Market Summary – 1/18/2012

Treasuries were strong across the curve, with the 10-year receiving record-low yields on its \$21 billion auction.

We see some opportunities in longer-dated municipals—14 to 22

years out. Indeed, more and more investors seem to be extending duration, as \$626 million entered long municipals in the week ending Jan. 11. Significant duration exposure comes with that part of the curve, however.

[Read more now.](#)

Weekly Market Summary – 1/10/2012

Treasuries were positive last week, as the curve remained in the same range it was in for the last three months of 2011.

Equities also posted a strong start to 2012 with a gain of 1.67 percent in the S&P 500. The Nasdaq was the big winner for the week, however, gaining 2.66 percent as technology stocks surged.

[Read more now.](#)

Weekly Market Summary – 1/4/2012

The final week of 2011 saw trading that mimicked what we saw throughout the year: back-and-forth moves, volatility, and very little net change when all was said and done.

Looking back at the last year, the risk-off trade was the major theme within the equity space. More defensive sectors like utilities, consumer staples, health care, and telecom were the best performers.

[Read more now.](#)

Weekly Market Summary – 1/28/2011

Equity markets posted strong percentage gains last week. The S&P 500 climbed 3.8 percent, posting the strongest gains among the indices tracked in the table below.

Heading into the last week of the year, it looks as if the Dow Jones Industrial Average is set to be the relative winner for the year. Barring a large decline this week, it will likely end up in the black.

[Read more now in our Weekly Market Summary.](#)

Weekly Market Summary – 12/13/2011

Last Friday, 9 additional European countries reportedly joined

the 17 eurozone countries in drafting a new treaty for fiscal union. The United Kingdom was the only country to opt out of this agreement for now. [Read more now.](#)

Weekly Market Summary – 11/29/2011

Equity markets continued to slide, posting four days of losses last week, after several down days in the prior week. In total, the S&P 500 Index has lost ground in all of its last seven trading days, declining nearly 8 percent.

A German 10-year bund auction failed to get bids for 35 percent of its auction last week, subsequently increasing the yield of the issue. [Read more now.](#)