



Market Week: May 21, 2012

The Markets

Greek tragedy: Equities' worst week of the year marked their third consecutive week of losses, which have cumulatively sliced more than eight percentage points off the S&P 500's year-to-date gains. The flow of euros out of Greek banks accelerated, raising concerns about a run on banks there and helping to increase demand for U.S. Treasuries. That left the 10-year yield approaching an all-time low, while an auction of 10-year Treasury Inflation-Protected Securities (TIPS) resulted in a negative yield for the fourth consecutive time. The euro fell to \$1.27, and as the dollar strengthened, oil prices fell once again to end the week near \$91 a barrel. Meanwhile, gold bounced up nearly \$40 an ounce.

Market/Index	2011 Close	Prior Week	As of 5/18	Week Change	YTD Change
DJIA	12217.56	12820.60	12369.38	-3.52%	1.24%
Nasdaq	2605.15	2933.62	2778.79	-5.28%	6.67%
S&P 500	1257.60	1353.39	1295.22	-4.30%	2.99%
Russell 2000	740.92	790.06	747.21	-5.42%	.85%
Global Dow	1801.60	1853.93	1754.30	-5.37%	-2.63%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.89%	1.84%	1.71%	-13 bps	-18 bps

Equities data reflect price changes, not total return.

Last Week's Headlines

- Greece will schedule new elections for June to try to elect leaders who can form a coalition government; a caretaker government was named to keep the lights on until then. Meanwhile, Europe got a sliver of good news for a change as Germany's economy grew 0.5% during the first quarter--substantially better than the previous quarter's 0.2% contraction. Growth also was the focus of G8 leaders attending a Camp David summit over the weekend. Their joint statement said Greece should remain in the eurozone and that stimulating economic growth--not just austerity--is essential to the region's future.
- Spain's 10-year bond yield once again rose above 6%, roughly four times the yield on equivalent German debt, and Moody's downgraded the credit rating of a number of Spanish banks. There also were reports that euros were being withdrawn from Greek and some Spanish banks, potentially increasing the banks' difficulty in meeting capital requirements.
- In the United States, declines in energy costs in April helped offset increases in the cost of food, travel, shelter, cars/trucks, medical care, and clothes, leaving the Consumer Price Index flat for the month. The Bureau of Labor Statistics said that for the past year, consumer inflation was 2.3%, slightly higher than the 1.9% wholesale rate.
- Housing starts were up 2.6% in April and up 29.9% from last April. The Commerce Department also said that even though building permits were down 7% overall for the month, they were 23.7% higher than last year at this time, and single-family permits were up 1.9% from March.
- The Federal Reserve's Open Market Committee's minutes showed the Fed still sees moderate economic growth but is ready to take further measures to support the economy if the situation in Europe worsens or if fiscal and legislative policies increase the likelihood of renewed recession.



- Retail sales rose 0.1% in April, according to the Commerce Department, and were 6.4% higher than last April, though the figures aren't adjusted to reflect price increases. The increase is significantly less than those seen in February and March.
- Manufacturing reports were mixed. The Fed's Empire State survey of general business conditions for New York area companies rebounded strongly from last month's 6.6 reading, rising to 17.1, and industrial production was up 1.1%. However, the same survey by the Philadelphia Fed turned negative for the first time in eight months, declining from 8.5 to -5.8.
- Technology giveth and technology taketh away: Facebook's IPO, one of the largest on record, suffered from problems with Nasdaq's systems for processing trades Friday when the company debuted. Despite massive trading volume, the stock ended just 23 cents above its initial price.

Eye on the Week Ahead

Europe will likely continue to dominate traders' minds as Germany and Spain are both set to auction bonds. Skimpy domestic economic data will focus on housing.

Key dates and data releases: home resales (5/22); new home sales (5/23); durable goods orders (5/24).

Data sources: Includes data provided by Brounes & Associates. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results.

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