

WEEKLY MARKET WRAP

JULY 17 – JULY 23, 2010

Stocks moved significantly higher this week as better than expected earnings reports outweighed concerns over the economic recovery. The Dow, S&P 500 and Nasdaq are now around break even for the year. For the week: Dow (3.2%), S&P 500 (3.5%), Nasdaq (4.1%).

Earnings were at the forefront of news flow this week with a number of bellwether companies reporting. IBM and Johnson & Johnson reported lackluster quarters and outlooks while Apple, Pepsi and Microsoft provided upbeat results. Investors are focused on revenue growth and the outlook for the second half of the year as concern over the economic recovery has intensified recently. Much of the improvement in earnings over the past year was driven by significant cost cutting. Companies now need to prove they can continue on this upward earnings trajectory by growing revenues.

It was a generally benign week in terms of economic data with a few mixed reports on the housing sector. Housing starts for June came in worse than expected, down 5.0% month-over-month, while building permits surprised to the upside, rising 2.1%. Existing home sales declined 5.1% in June to a better than expected annualized rate of 5.37 million units.

Fed Chairman Ben Bernanke caused the equity markets to sputter on Wednesday while giving his semi-annual monetary policy report to the Senate Banking Committee. He discussed the continued uncertainty in the economy and the Fed's willingness to respond accordingly, if needed, to spur the economy. As a result, investors flocked to the safety of U.S. Treasuries, pushing the yield on the 10-Year Note below 2.90%, the lowest level since April 2009.

In international news, Friday saw the release of the European bank stress tests with 7 of the 91 banks failing to have sufficient reserves. The results were met with little response as many questioned the stringency of the tests and the main concern to the market is the pace of the economic recovery.

Hopefully, with the continuation of earnings season next week, results and outlooks will further validate the economic recovery and alleviate investors concerns over the strength and pace of the turnaround.

Have a great weekend!