

## WEEKLY MARKET WRAP

JUNE 5 – 11, 2010

The equity markets moved erratically higher this week trying to serve two masters. On the one hand, there are many perceived and real problems with the domestic and global economy. Namely, the fears of a double dip are still present and the recent shock of the developing fiscal crisis in Europe and the decline of the euro continue to weigh on investors. In addition, the Gulf oil leak is still in the headlines with all the attendant environmental and economic damage. The prospect of higher interest rates and higher taxes together with large government deficits keep cautious investors on the side lines. On the other hand, the recent market correction has created better valuations and the U.S. economy has shown increasingly constructive trends. Furthermore, rumors of a slowdown in China appear overstated as recent reports show strong export activity.

The early days of this week saw no clear direction; however, Fed Chairman Bernanke testified before the House Budget Committee giving a balanced but constructive picture of current economic trends. Later on Wednesday afternoon, the Federal Reserve released its monthly Beige Book for May that showed slight improvement in all twelve districts. Then on Thursday equities staged a strong rally on the heels of the better news from the Fed and China. The Dow was up 273 points (2.8%) that day, while the S&P 500 rose 3.0% and the Nasdaq 2.8%.

Friday was an unsettled day in equities, seeing a decrease in volatility but an increase in oil prices to \$74 and interest rates on the 10-year Treasury ticking up slightly to 3.22%, for the week after hitting 3.30% in the prior week. The important news of the day showed that retail sales in May fell by 1.2%. Most investors anticipated only a modest increase in May, so it was surprising to see a down number. Apparently the weak sales report was caused by the ending of a government rebate program to stimulate the purchase of energy efficient appliances similar to “cash for clunkers”. Later on Friday the Michigan Sentiment Index showed a strong reading of 75.5 (the highest reading since January 2008) that served to somewhat off-set the retail sales report.

For the week the Dow finished up 2.8% (10,211); the S&P 500 improved 2.3% (1,089); the Nasdaq was up 1.1% (2,243) and the Russell 2000 finished the week up 2.3% (649). The VIX (measure of volatility) fell from 35 last week to 28.7 today.

There were no significant earnings releases this week.

During the week the Treasury auctioned \$70 billion in a variety of notes and bonds. The auction was considered very successful due to the heavy demand caused by the recent European crisis. As an example, the auction for the thirty year bond on Thursday saw strong bid-to-cover ratio of 2.87 to end a very successful week.

CONGRATULATIONS TO THE CHICAGO BLACKHAWKS ON WINNING HOCKEY'S STANLEY CUP!!