



July 6, 2009

All major equity indexes finished lower last week. With the markets closed Friday in observance of Independence Day, the week ended with stocks experiencing their third straight week of losses, shedding more than 5% of the year's gains.

Stocks generally traded in a narrow range until the S&P 500 Index slipped below the psychologically significant 900 level in the final half-hour of trading for the short week.

Losses were steepest among energy and financial stocks. Crude oil futures in New York fell to almost \$66 a barrel, about 10% below this year's high of \$73.38, a decline often defined as a market "correction." Meanwhile, financials were severely undercut by losses among insurers.

Stocks had been showing weakness ahead of the government's latest June Nonfarm Payrolls report, which was released at week's end, and indicated that 467,000 jobs were lost last month.

Meanwhile, the national unemployment rate now stands at 9.5%, which isn't quite as bad as the 9.6% that was expected, but still marks a 25-year high. According to Reuters, the White House expects the unemployment rate to climb to 10% in next two to three months.

May factory orders made a surprisingly strong 1.2% increase, the most since June

	Key Market Data		
	Week ending		
	7/03/09	6/26/09	Change
Dow Jones Industrial Average Index	8,280.74	8,438.39	-1.87%
S&P 500 Index	896.42	918.90	-2.45%
NASDAQ Composite Index	1,796.52	1,838.22	-2.27%
10-Year Treasury Note Rate	3.50%	3.53%	-0.03%
NYMEX Crude Future (Barrel)	\$66.73	\$69.16	-\$2.43
Euro/U.S. Dollar	\$1.3980	\$1.4056	-\$0.0076

2008 and in line with the consensus. The stock market attempted to pare some of its losses following the orders announcement, but the disappointing jobs report dominated headlines and overshadowed the encouraging orders data.

The broader view

While the trend in job losses appears to be moderating, that continues to be good, but not great news. While the first quarter experienced job losses averaging 670,000 per month, in the second quarter, they still averaged a whopping 436,000.

As we mentioned last week, we are closely watching employment trends for signs of real "green shoots" and positive change – not just the so-called "second derivative" argument, which interprets less than bad news as positive. We will finally recognize positive change when the rate of employment starts to go up.

And, it looks like we are going to have to wait a little longer after seeing last week's job losses, which were widespread across most sectors, with large declines in manufacturing, professional and business services, and construction.

Nonfarm payrolls have declined 4.1% from a year ago, the most since May 1958. Hurt by a 52,000 reduction in government payrolls, largely due to layoffs of temporary census workers, nonfarm payrolls shrank by 467,000, or 0.4%, in June, well above expectations of -350,000. Even so, the loss in private payrolls was about 100,000 more than in May. The economy has lost 6.5 million jobs since the start of the recession, falling back to levels last seen in August 2004.

The average workweek fell 0.1 hours to a record low 33.0. Over the past 12 months, aggregate hours worked have fallen a record 7.0%.

How bad is that? Aggregate hours have now fallen more than in both the 1973-75 and 1981-82 recessions. Since hours often lead

payrolls and employers are cutting back hours, it looks like real hiring remains a long way off – which will dampen consumer spending and hopes of a near-term consumer-led economic recovery.

A look ahead

Next week will see the start of the second quarter earnings season, unofficially kicked off by Aluminum maker Alcoa Inc. which will announce earnings mid-week.

Hopefully, our cautious optimism will be validated and we will see that we are still on the road to recovery. Unfortunately, that recovery will likely be sub-par relative to other recoveries. Stock analysts generally agree the upcoming second-quarter earnings season will be bleak. But they're at odds over whether the dreary outlook will lead to upsets to the upside or whether the market has set itself up for a fall.

Next week will also see the bond market trying to digest a lot of new supply.

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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.

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