

## Market Week: May 26, 2009

### The Markets

Investors who kept the faith were rewarded last week--at least until Thursday, when a report from Standard & Poor's on U.K. sovereign debt discouraged both the equity and bond markets. The bad news sent yields on 10-year Treasuries to their highest level in six months (consequently, prices went in the opposite direction). However, when markets closed early for the holiday weekend, the major equity indexes were still up (barely) for the week on hopes for continued sporadic sightings of tentative "green shoots" in the economy.

Market/Index	2008 Close	Prior Week	As of 5/22/09	Week Change	YTD Change
DJIA	8,776.39	8,268.24	8,277.32	+1%	-5.69%
NASDAQ	1,577.03	1,680.14	1,692.01	+71%	+7.29%
S&P 500	903.25	882.88	887	+47%	-1.8%
Russell 2000	499.45	475.84	477.62	+37%	-4.37%
Global Dow	1,526.21	1,564.63	1,604.53	+2.55%	+5.13%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	2.24%	3.12%	3.45%	+33 bps	+1.21%

### Last Week's Headlines

- Driven largely by a 46.1% drop in construction of apartments and multifamily housing, new housing project construction fell in April at a record 12.8% annual rate--more than had been expected. However, starts of single-family homes actually rose 2.8%.
- In a shot heard 'round the world, Standard & Poor's lowered its outlook on the British equivalent of U.S. Treasury bonds, raising the ominous possibility that the U.K. could lose its AAA credit rating sometime in the next two years unless the government does more to close the growing budget deficit that has led to increased debt. The move also stirred discussion about potential implications for Treasuries and helped drag the dollar to its lowest level of the year versus the euro.
- The Conference Board's Index of Leading Indicators was sharply (+1%) and broadly positive in April for the first time in seven months. Stock prices, interest rate spreads, consumer expectations, initial jobless claims, hours worked, and supplier deliveries (in that order) fueled the increase; the negatives were real money supply, building permits, and new orders for nondefense capital goods.
- Though Federal Reserve Board members continue to predict a recovery will begin by the end of the year, the most recent FOMC minutes show they also feel it will be slow, hampered by further labor market deterioration, continued tight credit conditions, and an ongoing decline in housing prices. Returning to sustainable paths for growth, inflation, and employment could take five to six years, they said.
- Florida's BankUnited FSB became the 34th U.S. bank--and the largest--to be taken over by the FDIC this year. At \$4.9 billion, it's the second costliest bank failure of the ongoing financial debacle, behind IndyMac last July.
- GMAC, GM's financing arm, will get an additional \$7.5 billion in TARP funds, bringing the total provided to \$13.5 billion.

### Eye on the Week Ahead

The housing market will be front and center during this holiday-abbreviated week, with home price and sales data on tap and the start of prime summer homebuying season. Also, the markets will be keeping an eye on GM's impending Monday deadline for any sign that the automaker might be able to avoid bankruptcy.

Key data releases: Home prices, Conference Board consumer confidence (5/26); existing home sales (5/27); new home sales, durable goods orders (5/28); preliminary Q1 GDP, UMichigan consumer sentiment (5/29).

*Data source: 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.*

*The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The Nasdaq Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indexes listed are unmanaged and are not available for direct investment.*