The Market Week in Review
For the Week Ending August 6, 2011

THE MARKETS

Concern about a double-dip recession sent stock markets plummeting worldwide in the worst stock-market selloff since the middle of the financial crisis in early 2009. Led by a steep decline of around 5 percent in the United States on Thursday, stocks have now fallen nearly 11 percent in two weeks. As investors fled assets like stocks, they piled into the perceived safety of United States Treasuries where 10 year interest rates closed on Friday at 2.56%. Yields on one month United States notes actually fell into negative territory briefly last week before closing Friday at 0.01%.

Investors have plenty to worry about as recent data pertaining to the U.S. economy has worsened and Europe's sovereign debt crisis threatens to engulf Spain and Italy. However it is important to keep in mind that the credit markets are still healthy, the banking sector is not broken and the United States is now stronger than just a few years ago. As a result, as things now stand we believe that a repeat of the 2008-2009 financial crises is unlikely.

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	12,143.24	11,444.61	-698.63	-5.75%	-1.15%
Nasdaq	2,756.38	2,532.41	-223.97	-8.13%	-4.54%
S&P 500	1,292.28	1,199.38	-92.90	-7.19%	-4.63%
Russell 2000	797.03	714.63	-82.40	-10.34%	-8.81%

As discussed further below, on Saturday Standard and Poors lowered the United States credit rating from AAA to AA+.

MONDAY
The Institute for Supply Management said on Monday its index of national factory activity fell to 50.9, the lowest level since July 2009. Economists had expected a reading of 54.9. A reading below 50 indicates a contraction in manufacturing. In June the index stood at 55.3. As has been pointed out in earlier editions of this newsletter, manufacturing had been a strong point in the nation’s economy, making Monday’s report that much more troubling.

However, there was also some good news on Monday from a surprising source. Construction spending rose 0.2% in June according the Census Bureau. The upturn stands in stark contrast to May’s results, which registered a 0.6% decline in construction spending. However, even with that improvement overall construction spending is just 1.2 percent higher than the 11 year low hit in March, and is about half of the $1.5 trillion pace considered healthy by most economists.

TUESDAY

The Commerce Department said on Tuesday consumer spending slipped 0.2 percent, after edging up 0.1 percent in May. It was the first monthly decline since September 2009. Incomes rose just 0.1 percent. Together the report provides even further evidence that the economic recovery is faltering. There seems little doubt that consumers are spending less in light of the current 9.2 percent unemployment rate, which few economists believe will not be improving any time soon. There was also a silver lining in the weak spending report, as the price of consumer goods overall fell 0.2% mainly as a result of a decline in gasoline prices.

WEDNESDAY

The Commerce Department announced on Wednesday that orders for manufactured goods fell 0.8% in June after a revised 0.6 percent increase in May. Economists had been predicting a 0.7% decline. Demand for machinery, transportation equipment and computers suffered the biggest reductions. Orders for durable goods (that is, products that are expected to last 3 years or more) declined 1.9%, which is slightly better than the 2.1% decline reported for June.

THURSDAY

The number of Americans claiming new unemployment benefits remained virtually unchanged last week, at 400,000, the Labor Department said on Thursday. Economists had expected initial jobless claims to rise to 405,000. Continuing claims rose 10,000 in data for the July 23rd week to 3.730 million but is basically changed from the month ago comparison.

FRIDAY

A report issued by the Labor Department on Friday indicated that United States employment growth accelerated more than expected in July. Nonfarm payrolls increased by 117,000, which significantly surpassed market expectations for a gain of 85,000. The unemployment rate dipped to 9.1 percent from 9.2 percent in June. Job gains occurred in health care, retail trade, manufacturing, and mining, while the number of people working for the government continued to decline. The numbers of persons unemployed for less than five weeks fell by 387,000, while the number of long-term unemployed (those jobless for 27 weeks and over), remained at approximately at 6.2 million. 44.4% of the nation's unemployed workers fall into this category.

SATURDAY

Standard and Poors announced on Saturday that it was cutting its rating of long-term federal debt to AA+, one notch below the top grade of AAA. "The downgrade reflects our view that the effectiveness, stability, and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenge," the company said in a statement. The downgrade could lead investors to demand higher interest rates on Treasury bonds, which would likely push interest rates on municipal and corporate bonds higher as well. Rising yields would cause bond prices, and the share price of ETFs that invest in bonds, lower. But many analysts are predicting the impact will be modest, in part because Moody's and Fitch ratings services have decided not to follow S&P's lead at this time.

QUOTE OF THE WEEK

> *"Both parties share power. Both parties share responsibility for our progress. Moving our economy and our country forward is not a Democratic or Republican responsibility ... It's not a public or a private responsibility; it is the responsibility of all Americans."*
>
> President Barak Obama

I hope you have found the information in this week's market summary helpful. If you would like to comment on any of the information found in this week's Market Commentary please e-mail me at awillms@estatecounselors.com. If you would like to discuss how current market conditions could impact your investments, please feel free to call me at the number listed below.

Best regards,

Andy

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