WEEKLY MARKET COMMENTARY **July 29, 2013**

The Markets

If it's not stocks, it's bonds!

In a turnaround worthy of Bruce Willis in a 'Die Hard' movie, expectations for second quarter's corporate earnings growth soared from below expectations, on average, in the previous week to beating expectations last week. Earnings growth estimates shot up to 4.1 percent which was a significant change from last week's 2.8 percent. Of the companies that have reported so far, more than one-half have performed better than expected – an improvement on the last four quarters' performance.

Whether it is earnings performance or other factors, consumers have become more confident than they've been in years – six years to be specific. The Thomson Reuters/University of Michigan's consumer sentiment index beat expectations for June even though consumers expect growth to slow next year.

Things were not so rosy for bond markets which have been selling off since early May on speculation the Fed will temper quantitative easing before the end of the year. Yields on 10-year Treasuries have ascended from about 1.5 percent in early May to more than 2.5 percent last week.

Ben Bernanke's impending retirement also has bond markets roiled. Speculation about who will become the next chairman of the Federal Reserve, and how his or her policies will differ from Bernanke's, is unsettling investors and creating potential for bond market volatility, according to MarketWatch.

On the public finance side of the market, municipal bond investors are reeling after Detroit's bankruptcy declaration. The city's dire circumstances have caused some pundits to look more closely at municipal credits. According to Barron's, 83 percent of Moody's Investors Service's second quarter municipal bond rating changes were downgrades.

The drama and suspense is likely to continue next week. The Fed begins a two-day policy meeting on Tuesday, and an abundance of economic indicators – including the S&P Case Shiller Home Price Index, PMI Manufacturing Index, and employment situation reports – will be released.

Data as of 7/26/13	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500	0.0%	18.6%	24.4%	14.9%	6.5%	5.4%
10-year Treasury Note (Yield Only)	2.6	N/A	1.4	3.0	4.0	4.3
Gold (per ounce)	2.7	-21.4	-17.7	4.0	7.6	13.8
DJ-UBS Commodity Index	-2.3	-9.0	-11.1	-0.8	-9.2	0.9
DJ Equity All REIT TR Index	-1.5	9.2	12.8	15.7	8.4	11.0

Notes: S&P 500, Gold, DJ-UBS Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

IF AESOP WAS RIGHT, EUROPE MAY EVENTUALLY REACH THE END OF RECESSION. You've heard about the tortoise and the hare. It's a fable that has much to say about unequal partners, overconfidence, and perseverance – topics that leaders of the European Union (EU) may ponder when they're not poking and prodding member states in efforts to provoke structural reform and growth.

Last year, the head of the European Central Bank (ECB) announced that ECB would do whatever it took to save the euro. Nine months later, Europe still is plodding through recession. During the first three months of this year, gross domestic product in the region declined slightly year-to-year. The European Commission projects the decline will be a bit bigger over the full year (down 0.4 percent). That, however, will be an improvement over 2012's 0.6 percent contraction.

The good news, according to *The Economist*, is current account deficits (the difference between a country's total imports and its total exports) and primary budget balances (budgets without interest payments included) have improved in many EU countries. In fact, this year it appears the biggest primary budget deficit (about 3.9 percent) belongs to the United Kingdom. The bad news is government debt levels remain very high in many EU nations. In May, Peter Praet, a member of the ECB's executive board, said:

> "…the euro area needs to persevere in fiscal consolidation efforts and reduce steadily the government debt ratio. Despite the important progress on fiscal consolidation, debt ratios have yet failed to stabilize in most euro area countries…The euro area government debt ratio is projected to rise further to above 95% of GDP in 2013 – far above the 60% Maastricht reference value – with debt ratios displaying large differences across countries."

Research from the National Bureau of Economic Research has found growth typically slows – by about 1 percent – when a nation's debt level reaches 90 percent of gross domestic product. If they're right, growth in the EU probably will be slow overall. Let's hope it's steady, too.

Weekly Focus – Think About It

To keep the body in good health is a duty... otherwise we shall not be able to keep our mind strong and clear.

--- *Siddhartha Gautama, also known as Buddha*

Financial Factoid: The S&P 500 was up +7.3% per year (total return) for the 10-years ending 6/30/13. A decade ago, the S&P 500 was up +10% per year (total return) for the 10-years ending 6/30/03 (Source: BTN Research).

Epic Humor: A pastor of a church is sitting in his study when the phone rings.

"Hello, is this Reverend Jones?" the caller asks.

"It is." replied the pastor.

"This is Bill Johnson with the Internal Revenue Service. I was wondering if you could answer a few questions?"

"I'll try." said the pastor.

"Do you know a John Timmons?"

"I do."

"Is he a member of your congregation?"

"He is."

"Did he donate $10,000 to the church?"

"He will."

Have a great week!

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Securities offered through LPL Financial, Member FINRA/SIPC.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.
* The DJ Global ex US is an unmanaged group of non-U.S. securities designed to reflect the performance of the global equity securities that have readily available prices.
* The 10-year Treasury note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market
* Gold represents the London afternoon gold price fix as reported by the London Bullion Market Association.
* The DJ Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
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