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Market Month: August 2012

The Markets

After six straight weeks of gains, equities took a bit of a breather at month's end. The S&P spent the last half of the month bumping its head up against its year-to-date high of 1419 but never quite managed to close above it, while both the Dow and the Nasdaq ended the month a little over 1% away from their 2012 highs. It was the third consecutive month of gains for all three indices. Meanwhile, the Global Dow was aided by the previous month's promises to protect the euro at all costs.

Oil prices shot up almost 10% to roughly $96 a barrel, fueled by hopes for additional easing by the Federal Reserve, reassuring words out of the eurozone, and concerns about Middle East supplies. Along with problems at several refineries, that helped spike gas prices in advance of the Labor Day weekend. Gold prices rose almost 5% to $1,685 an ounce, helped by a slightly weaker dollar.

Market/Index	2011 Close	Prior Month	As of 8/31	Month Change	YTD Change
DJIA	12217.56	13008.68	13090.76	.63%	7.15%
Nasdaq	2605.15	2939.52	3066.96	4.34%	17.73%
S&P 500	1257.60	1379.32	1406.57	1.98%	11.85%
Russell 2000	740.92	786.94	812.09	3.20%	9.61%
Global Dow	1801.60	1834.34	1869.92	1.94%	3.79%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.89%	1.51%	1.57%	6 bps	-32 bps

Equities data reflect price changes, not total return.

The Month in Review

- Federal Reserve Chairman Ben Bernanke said the Fed is ready to supply fresh economic support if needed, but stopped short of promising specific additional measures at the Federal Open Market Committee's September 13 meeting. Meanwhile, Spanish and Italian bond yields eased a bit, though there was little concrete follow-up to European Central Bank President Mario Draghi's promise to do whatever it takes to preserve the euro.
- The U.S. economy grew at an annual rate of 1.7% in the second quarter rather than the 1.5% previously estimated by the Bureau of Economic Analysis. That's slightly higher than previously thought, but also slightly lower than Q1's 2% growth. Corporate after-tax profits were up 1.1% from the previous quarter, and 3.3% higher than a year ago.
- The U.S. economy added a net 163,000 new jobs. According to the Bureau of Labor Statistics, that's a bit higher than the 151,000 monthly average for 2012. The private sector added 172,000 jobs, while government employers cut roughly 9,000 positions. However, because more people once again sought work and were therefore counted in the statistics, the unemployment rate edged up from 8.2% to 8.3%.
- Falling energy prices helped keep inflation in check; both the annual consumer and wholesale inflation rates continued to slow, hitting 1.4% and 0.5% respectively. However, the summer's widespread drought led the U.S. Department of Agriculture to cut its estimate of the nation's corn crop by 17%. That would make the fall harvest the worst in nearly two decades and potentially increase the price of corn used in processed foods, as livestock and poultry feed, and as the fuel ethanol.

- Slower Chinese manufacturing growth led to speculation that there might be additional efforts to stimulate the economy there. There also were signs of slower growth in Germany, the eurozone's key economic driver. Meanwhile, U.S. manufacturing data was mixed; the Federal Reserve said industrial production was up 0.6% and utilization of the nation's manufacturing capacity hit its highest level since April 2008. However, contraction was seen in both the Institute for Supply Management's manufacturing survey and in several of the Fed's regional divisions.
- The housing market began to show signs of life. Sales of new single-family homes rebounded 3.6% in July, putting them 25.3% higher than July 2011, according to the Commerce Department. The National Association of Realtors® said home resales also went up 2.3% in July and were 8.6% higher than last July, while housing starts fell 1.1% after a 6.8% increase during the previous month. Finally, home prices saw improvement; the year-over-year change in the S&P/Case-Shiller 20-city index (+0.5%) was positive for the first time in almost two years, with a 2.3% gain for the month putting prices 6% higher than the recent low seen in March.
- Consumer spending, which accounts for an estimated 70% of the U.S. economy, saw its biggest monthly increase since February (0.4%), but the Commerce Department said the increased spending outpaced the 0.3% gain in income. Retail sales also were up 0.8% in July; the first increase in four months put them 4.1% higher than a year ago.
- Sixteen years after it almost went bankrupt, Apple became the largest U.S. company in history as its market cap hit $623.52 billion.
- In its semiannual budgetary report, the nonpartisan Congressional Budget Office said that scheduled tax increases and federal spending cuts would likely push the U.S. economy into recession next year, cutting real GDP by 0.5% and pushing the unemployment rate to more than 9% by December 2013. Even without the changes, the CBO forecast a relatively sluggish 1.7% increase in GDP and a continued 8% unemployment rate.

Eye on the Month Ahead

Light summer trading volumes will likely be replaced by traders' efforts to position themselves for the end of the quarter. A German court's ruling on the country's participation in Europe's bailout mechanism, currently anticipated to be announced around September 12, could affect investor sentiment; so could a report on the stability of Spanish banks. Investors also will keep an eye on the September 13 Fed announcement to see if additional economic stimulus is on the horizon.

Key dates and data releases: U.S. manufacturing sector, construction spending (9/4); labor productivity/costs (9/5); U.S. services sector (9/6); unemployment/payrolls (9/7); balance of trade (9/11); import/export prices (9/12); Federal Open Market Committee announcement, wholesale inflation (9/13); consumer inflation, retail sales, industrial production, business inventories (9/14); Empire State manufacturing survey (9/17); international capital flows (9/18); housing starts, home resales (9/19); Philadelphia Fed manufacturing survey (9/20); quadruple witching options expiration (9/21); home prices (9/25); new home sales (9/26); final estimate of Q2 gross domestic product, durable goods orders (9/27); personal income/spending (9/28).

Data sources for non-equities performance: U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold, NY close); Oanda/FX Street (currency exchange rates). 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. Equities data reflects price changes, not total return.

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. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.