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Weekly Market Wrap

June 9, 2008

Review - Week Ending 06/06/2008

Stocks declined last week across all major stock indexes, with bonds gaining slightly. Oil spikes late in the week renewed recession fears and led to a rapid sell-off on Friday. This was on top of weak jobs data earlier in the week. This week market focus will remain on oil, economic data, and signals from Fed members speaking over the next few weeks.

Commentary/Highlights

- **Oil remains the key headline risk for at least the rest of the summer.** Oil prices spiked 13% over the last two trading days, and hit trading curbs on Friday, rising over \$11/barrel to \$139/barrel, now up 44% YTD. Israeli-Iranian tensions, Nigerian oil strikes, and weak dollar all contributed to week's worries. Oil prices cannot rise much further without cutting into already weaker global growth. In Spain, 90,000 drivers staged a "snail protest" strike to protest higher diesel prices, similar regional protests are showing up in the U.S.
- **Financial sector woes keep mounting.** Lehman Brothers pre-announced a \$3 billion 2nd quarter loss, and will raise \$6 billion to rebuild balance sheet. Bond insurers AMBAC and MBIA lost their triple A ratings and remain on WATCH, and insurance giant AIG is being investigated by SEC relating to derivatives accounting. AIG CEO will likely join the long line of financial CEOs being shown the door.
- **Pending home sales gained 6.3% in April** on increased foreclosure sales and bargain hunting activity.
- **Liz Ann Sonders, Chief Investment Strategist at Schwab** notes that the spike in May unemployment (5.0 to 5.5%) was the largest monthly increase in 22 years. Half point increases have never occurred **except in a recession**. She also notes **back to back job monthly job losses only have occurred in recessions**, we now have had five consecutive monthly losses.
- **Remember: The stock market is forward looking.** Just because the economy is in the tank, it doesn't follow that the stock market will stay there. SentimentTrader.com looked at the **20 largest monthly jumps in unemployment over the past 58 years**, and found on average, **3-months later** the S&P 500 was **up 75% of the time with an average gain of 6.5%**. **One year later**, the S&P 500 was **up 90% of the time, with an average gain of 24.9%**.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	+0.30%	-0.64%	+1.51%
Lehman High Yield	+0.29%	+4.99%	+1.83%
Dow Jones Industrial	-3.34%	-0.05%	-6.85%
S&P 500 Index	-2.80%	+3.26%	-6.52%
Russell 3000	-2.41%	+4.57%	-5.38%
MSCI EAFE Index	-1.38%	+3.79%	-6.10%
MSCI EAFE Small Cap	-1.38%	+4.01%	-2.39%
NASDAQ Composite	-1.91%	+8.58%	-6.70%
Russell 2000	-1.04%	+7.84%	-2.84%