

## A Bad Dream, or More to Come?

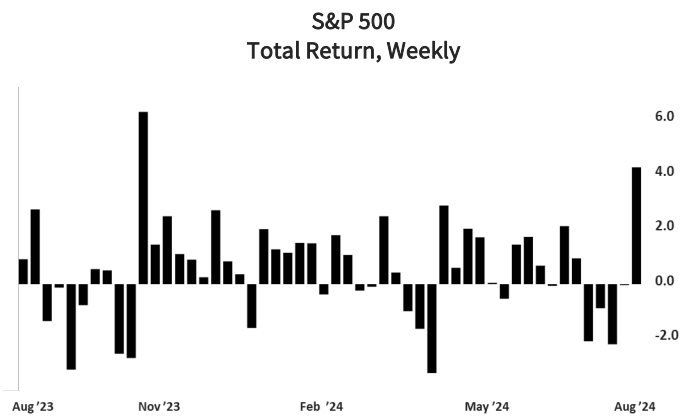
The market's recent days of volatility might feel today like the distant past. Last week, the S&P posted its strongest weekly performance since last November, pushing the index higher and only a touch from its all-time high. One would be forgiven for thinking that the carry-trade brouhaha of two weeks ago—fed both by fears of recession and loss of cheap leverage—was little more than a bad dream.

Investors found succor in three reports last week: a relatively benign report on inflation (CPI), a surprisingly strong report on retail sales, and an upbeat earnings release from retailing behemoth Walmart. Add a broad easing of financial conditions—lower oil prices, tighter credit spreads, falling mortgage rates, and a cheaper dollar—and the tone last week was decidedly more positive than the week prior.

So, was the early month volatility spike no more than a dream to forget? We suggest not.

The speed of both the market's early month drawdown and its recovery suggests to us that the market's newfound serenity may be fleeting. With the S&P 500 once again approaching its all-time high—and with crowded trades and recession anxieties still with us—investors be prepared for more volatile trading days ahead.

### CHART OF THE WEEK



Source: Bloomberg

### Index Returns (%)

Equities	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.
S&P 500	5608	5.00	2.89	18.63	30.23	9.71
Russell 1000 Growth	3703	6.21	0.98	21.88	38.39	10.12
Russell 1000 Value	1804	3.71	5.30	12.27	19.61	6.63
FTSE High Dividend Yield*	436	3.90	4.98	13.20	20.31	8.65
S&P Small and Mid Cap	17000	4.43	4.77	8.98	18.99	5.14
MSCI EAFE	2396	5.18	3.77	9.76	20.25	4.67
MSCI EM	1104	3.27	2.27	10.09	17.74	-0.32

### Index Characteristics

	NTM P/E	NTM P/E (20Y med)	NTM P/S	NTM P/S (20Y med)	Div. Yld
S&P 500	23.5	16.7	3.0	1.7	1.3
Russell 1000 Growth	31.6	19.8	5.4	2.0	0.6
Russell 1000 Value	18.2	14.9	1.8	1.4	2.1
FTSE High Dividend Yield*	13.8	14.3	1.6	1.6	4.0
S&P Small and Mid Cap	18.3	19.0	1.3	1.2	1.6
MSCI EAFE	14.9	14.7	1.5	1.1	3.1
MSCI EM	13.1	12.6	1.4	1.3	2.6

\* Bloomberg U.S. Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Fixed Income	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.
U.S. Aggregate	4.45	0.48	3.80	3.06	8.61	-2.12
U.S. Int. Gov/Credit	4.22	0.16	2.79	3.29	7.58	-0.44
U.S. Corporates	4.96	0.98	4.06	3.55	11.15	-2.08
High Yield	7.41	0.97	2.93	5.59	13.33	2.63
Municipals (1-10)	3.07	0.14	1.63	0.85	4.45	0.01

### Levels

Currencies	Last	1 Wk Ago	Prev YE	3 Yrs Ago
DXY	101.43	102.56	101.33	93.57
\$ per €	1.11	1.10	1.10	1.17
\$ per £	1.30	1.29	1.27	1.36
¥ per \$	145.38	146.84	141.04	109.74

Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago
2-yr Treasury	4.07	3.93	4.76	4.25	5.00	0.22
10-yr Treasury	3.87	3.84	4.40	3.88	4.34	1.24
30-yr Treasury	4.12	4.16	4.56	4.03	4.45	1.87
3-mo. LIBOR	5.39	5.38	5.59	5.59	5.64	0.13
6-mo. CD rate	4.94	4.91	5.42	5.28	5.84	0.20
Prime Rate	8.50	8.50	8.50	8.50	8.50	3.25
30-yr fixed mortgage	6.90	6.98	7.26	6.99	7.62	3.03

### Levels

Commodities	Last	1 Wk Ago	Prev YE	3 Yrs Ago
Oil (WTI)	74.04	78.35	71.34	54.76
Gasoline	3.40	3.45	3.12	3.17
Natural Gas	2.21	2.15	2.51	3.83
Gold	2513	2465	2063	1780
Copper	9143	8847	8464	8894
Wheat	534	529	628	728
BBG Index	228.56	226.71	226.43	196.27

### LAST WEEK IN REVIEW

- **Producer Price Index (July):** 0.1%/0.0% MoM (HL, Core); 2.2%/2.4% YoY (HL Core). Lower than expected.
- **Consumer Price Index (July):** 0.2%/0.2% MoM (HL, Core); 2.9%/3.2% YoY (HL Core). As expected, showing progress year-over-year.
- **Retail Sales (July):** 1.0%/0.3% MoM (HL, Control Group). Better than expected, with auto sales recovering in July.

### THIS WEEK

- FOMC Minutes: 8/21
- BLS Payroll Revisions: 8/21
- S&P Flash PMIs (August): 8/22
- Existing Home Sales (July): 8/22
- New Home Sales (July) : 8/23

### S & P SECTOR RETURNS

