

# Weekly Capital Markets Market Review July 26, 2010



## The Week in Review

### Economic Releases for the Week Ending 7/23/10

	**Consensus	Actual	Prior Period
June Housing Starts	-2.7%	-5.0%	-10.0%
June Existing Home Sales	-9.9%	-5.1%	-2.2%
June Leading Indicators	-0.3%	-0.2%	0.4%

Corporate earnings releases and economic data were both mixed in a week that experienced general improvement across the financial markets. Investors were focused on Friday's release of the stress tests for the European banks, which indicated that the vast majority of the banks actually passed the tests but doubts remain regarding whether or not the tests were stressful enough. The expectations for the tests and the lack of any negative surprises spurred an equity rally and the U.S. S&P 500 ended the week up 3.55%. Yields on U.S. Treasuries rose, with the 10-year yield climbing seven basis points to end at 3.00%. Credit markets also improved as spreads in both investment grade and high yield ended the week tighter.

The economic releases were generally mixed but the focus was on housing, which was negative. The expiration of the homebuyer tax credit is weighing on the sector and data surrounding housing is suffering as a result. The National Association of Homebuilders (NAHB) index fell to its lowest level since April of 2009. The index fell from 16 in June to 14 in July and is now down from a recovery-level high of 22 reached in May. June housing starts were better than expected, but still fell 5.0% to an annualized pace of 549,000 while June existing home sales followed May's 9.9% decline with a 5.1% decline. The index of leading economic indicators was slightly better than expected but was still down 0.2%. The troubling economic news came on the heels of Federal Reserve Chairman Ben Bernanke's comment that the outlook is "unusually uncertain", which had the markets temporarily spooked midweek.

## The Week Ahead

### Economic Releases for the Week Ending 7/30/10

	**Consensus	Prior Period
July Consumer Confidence	51.0	52.9
June Durable Goods Orders	1.0%	-1.1%
Q2 GDP	2.5%	2.7%

The week ahead is relatively lighter on economic news and the focus will be split between corporate earnings announcements and the economic data. This week's releases will include more housing data, consumer confidence and durable goods orders, and second quarter gross domestic product (GDP). New home sales and house prices are expected to remain sluggish, while consumer confidence is also likely to decline. After plunging from 63.3 in May to 52.9 in June, confidence is expected to drop another two points to 51.0 in July. The primary drivers of the drop in confidence were the weak labor market and a lack of income growth. Durable goods orders likely rose 1.0% in June after falling by 0.6% in May. Excluding transportation, orders are expected to have risen 0.4% in June after climbing 0.6% in May. Finally, the market will get the advanced estimate of second quarter GDP. Expectations are that the economy grew 2.5% in the second quarter after expanding by 2.7% in the first quarter. Second quarter GDP is likely to be driven by increases in total hours worked and industrial production.

World Bond Rates	7/23/10	1-Wk Chg	4-Wk Chg	YTD
US 10y	3.00%	0.07%	-0.11%	-0.84%
GBR 10y	3.44%	0.11%	0.05%	-0.58%
GER 10y	2.71%	0.10%	0.10%	-0.68%
CAN 10y	3.23%	0.07%	0.03%	-0.39%
JAP 10y	1.08%	-0.02%	-0.08%	-0.22%

Central Bank Rates	7/23/10	6/30/10	3/31/10	12/31/09
US Fed Funds	0.25	0.25	0.25	0.25
UK Bank Rate	0.50	0.50	0.50	0.50
GER Base Rate	1.00	0.50	1.00	1.00
CAN Bank Rate	0.75	0.50	0.25	0.25
JAP Disc Rate	0.10	0.10	0.10	0.10
3 Mo-LIBOR	0.49	0.53	0.29	0.25

Risk Premiums	7/23/10	1-Wk Chg	4-Wk Chg	YTD
USD/EUR	106	-7	-8	21
USD/CAN	78.9	-2.3	-5.8	-28.6
JPY/USD	23.47%	-2.78%	-5.06%	1.79%

Currencies	7/23/10	1-Wk Chg	4-Wk Chg	YTD
USD/EUR	1.29	0.00	0.05	-0.14
USD/CAN	0.97	0.02	0.00	0.02
JPY/USD	87.46	0.89	-1.77	-5.56

Commodities	7/23/10	1-Wk Chg	4-Wk Chg	YTD
Gold (oz.)	\$1,187.80	-\$0.40	-\$68.00	\$91.60
Oil (barrel)	\$78.98	\$2.97	\$0.12	-\$0.38
Wholesale Gasoline (gal)	\$2.12	\$0.07	-\$0.05	\$0.07
Natural Gas (mcf)	\$4.58	\$0.06	-\$0.28	-\$0.99

Equity Markets	7/23/10	1-Wk Chg	4-Wk Chg	YTD
S&P 500	1,102.66	3.55%	2.41%	-1.12%
FTSE 100	5,312.62	2.98%	5.27%	-1.85%
DAX	6,166.34	2.09%	1.58%	3.51%
S&P/TSX Comp	11,714.21	1.25%	0.05%	-0.27%
NIKKEI	9,430.96	0.24%	-3.15%	-10.58%

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\* DJ CDX.NA.IG.10 5Yr; 30 Day Avg. 1-month TSY Yield Volatility  
\*\* www.bloomberg.com