First Trust

Weekly Market Commentary & Developments

Week Ended August 19, 2011

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.00 (-01 bps)	GNMA (30 Yr) 6% Coupon:	112-25/32 (0.87%)
6 Mo. T-Bill:	0.02 (-04 bps)	Duration:	3.47 years
1 Yr. T-Bill:	0.08 (-01 bps)	30-Year Insured Revs:	192.6% of 30 Yr. T-Bond
2 Yr. T-Note:	0.19 (+01 bps)	Bond Buyer 40 Yield:	5.04% (-03 bps)
3 Yr. T-Note:	0.34 (+02 bps)	Crude Oil Futures:	82.55 (-2.83)
5 Yr. T-Note:	0.89 (-06 bps)	Gold Futures:	1846.70 (+106.50)
10 Yr. T-Note:	2.06 (-18 bps)	Merrill Lynch High Yield Indices:	
30 Yr. T-Bond:	3.39 (-33 bps)	BB, 7-10 Yr.:	6.99% (-13 bps)
		B, 7-10 Yr.:	8.51% (-10 bps)

The yield curve flattened this week on continued concerns about the global economy, driving investors to U.S. Treasury securities resulting in the largest weekly decline in the 30-year bond yield since December 2008. The Empire Manufacturing Index for August was reported at -7.72 on Monday vs. the estimate of 0.00. Tuesday, July industrial production was reported 0.9% higher vs. the expectation of 0.5% growth and July housing starts declined 1.5% to an annual rate of 604,000. The Producer Price Index was reported Wednesday, increasing 0.4% in July vs. the estimate of 0.2% and is up 7.0% year over year. The Consumer Price Index increased 0.5% in July, more than the expectation of 0.2% and is up 3.6% year over year. Also reported Thursday, existing home sales in July declined 3.5% to an annual rate of 4.67 million units and the August Philadelphia Fed report came in at -30.7 against the expectation of 2.0. Major economic reports (and related consensus forecasts) for next week include: Monday: July Chicago Fed National Activity Index (-0.48); Tuesday: July New Home Sales (312,000, 0.0% MoM), August Richmond Fed Manufacturing Index (-7); Wednesday: July Durable Goods Orders (2.1%, -0.5% excluding transportation); Friday: 2nd Quarter GDP (1.1%), 2nd Quarter Personal Consumption (0.2%), 2nd Quarter GDP Price Index (2.3%), August University of Michigan Consumer Confidence (56.0). Investors will be listening carefully to Ben Bernanke out of Jackson Hole, Wyoming this week as last year Bernanke unveiled QE2 at the conference.

US Stocks

Weekly Index Performance:

DJIA:	10817.65 (-451.37,-4.0%)
S&P 500:	1123.53 (-55.28,-4.7%)
S&P MidCap:	787.86 (-55.22,-6.5%)
S&P Small Cap:	356.33 (-24.42,-6.4%)
NASDAQ Comp:	2341.84 (-166.14,-6.6%)
Russell 2000:	651.70 (-45.80,-6.6%)

Market Indicators:

Strong Sectors:	Utilities, Cons Staples, Telecom
Weak Sectors:	Info Tech, Industrials, Materials
NYSE Advance/Decline:	845/ 2,339
NYSE New Highs/New Lows:	27/ 320
AAII Bulls/Bears:	35.6% / 39.8%

Last week the S&P 500 declined for the fourth consecutive week as the cheapest price-earnings ratios since March 2009, according to Bloomberg, did not entice investors. Shareholders are concerned that the world economy is slipping into a recession. Most of the damage for the week occurred on Thursday, as a Philadelphia-area manufacturing index dropped and fears that European banks have a shortage of capital resurfaced. Turning to earnings, **Wal-Mart** beat consensus on solid international and Sam's Club results. **Home Depot** rose for the week after raising guidance on increased traffic and spending, but **Lowes** traded down slightly after management lowered full year guidance. **Dell** slumped after the company issued negative commentary about consumer spending and PC demand. **Hewlett-Packard** dropped 27 percent for the week, the most since 1987, after issuing weak guidance and announcing strategic plans that weakened investor confidence in management. **Urban Outfitters Inc.** fell despite beating expectations as Anthropologie traffic decelerated in the first 10 days of the month. In other news, **Motorola Mobility Holdings Inc.** jumped over 54 percent for the week after **Google** announced their intentions to buy the firm for about $12.5 billion. **Bank of America Corp.** announced that it is selling its $8.5 billion Canadian credit card business as the company looks to rebuild capital. Looking ahead, investor sentiment toward the continuing sovereign debt issues and Ben Bernanke's speech in Jackson Hole on Friday will likely be the key catalysts for equity prices in the coming week. For those with a longer term horizon, S&P 500 valuations at 12.2x earnings seem compelling even if growth slows marginally.