



# Brounes & Associates

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## AND THAT'S THE WEEK THAT WAS...

For the Week Ended May 16, 2008

### Market Matters...

Market/Index	Year Close (2007)	Qtr Close (03/31/07)	Previous Week (05/09/08)	Current Week (05/16/08)	YTD Change
Dow Jones Industrial	13,264.82	12,262.89	12,745.88	<b>12,986.80</b>	<b>-2.10%</b>
NASDAQ	2,652.28	2,279.10	2,445.52	<b>2,528.85</b>	<b>-4.65%</b>
S&P 500	1,468.36	1,322.70	1,388.28	<b>1,425.35</b>	<b>-2.93%</b>
Russell 2000	766.03	687.97	720.05	<b>741.17</b>	<b>-3.25%</b>
Fed Funds	4.25%	2.25%	2.00%	<b>2.00%</b>	<b>-225 bps</b>
10 yr Treasury (Yield)	4.04%	3.43%	3.77%	<b>3.85%</b>	<b>-19 bps</b>

Over that past year-plus, the subprime debacle and related credit crisis have prompted discussions about “disaster,” “devastation,” “tragedy,” and “catastrophe.” Homeowners were unable to afford their houses, institutions faced significant asset write-downs, hard-working folks lost jobs, and investors watched portfolio values decline. While these financial consequences undoubtedly have been traumatic for many, the events of the past two weeks can serve to lend some perspective. The death toll in Myanmar has reached about 80,000 with another 50,000 people still missing. Likewise, in China, the earthquake eventually may take over 50,000 lives as well. Somehow, missing quarterly earnings by a few cents simply does not seem quite as significant.

Speaking of...earnings season plugged along and the results to date have given some analysts (the slightest) reason for optimism. As the week began, about 90% of S&P 500 companies had reported and 62% actually beat expectations. While average quarterly earnings have plummeted by over 17% on a consolidated basis, the results looked far stronger once financials were removed from the equation. (Of course, that's like removing food and energy from the inflation equation...see below.) Without that struggling (to put it mildly) sector, 1<sup>st</sup> quarter profits actually increased by over seven percent. Retailers took center stage this week as **Wal-Mart** proved again that discounters are benefiting from the current consumer nervousness. However, while **Macy's** and **JC Penney** suffered from weak sales, their results (and guidance) bested Street projections. **Sony** rebounded as TVs and cameras moved back onto shopping lists. Bond insurer **MBIA** and **Freddie Mac** reported wider losses, while UK-based **HBSC** realized higher profits.

Board directors and corporate execs again played “Let's Make a Deal” as **CBS** announced its intent to buy **CNET**; **HP** made overtures toward **EDS**; **GE** is putting its long-time appliance biz up for auction; and billionaire stakeholder Carl Icahn pushed for **Yahoo** management to reopen talks with **Microsoft** (or else). Analysts often welcome merger news and consider it a positive sign of a rebounding business climate. **Research in Motion** soared this week as the latest Blackberry creation will soon hit the market; and **Merck** received a major victory when a Texas appeals court overturned a Vioxx verdict which initially awarded \$32 million in damages.

**Goldman Sachs** apparently enjoyed the limelight (and the stir its analysts caused) last week. This week, they were at it again by forecasting crude to rise to \$141/barrel during the second half of 2008. Oil surged to about \$128/barrel late week and gas prices soared to over \$3.75/gallon just a few days before the widely-traveled Memorial Day weekend. Don't expect much sympathy from OPEC as Saudi Arabia seemed to scoff at W's request for a production hike and Qatar's Oil Minister maintained a similar attitude (and those guys are his buds). Despite the energy news, equity investors reacted positively to some better than expected earnings reports and a favorable inflation release (see below). The S&P 500 and Nasdaq even hit five-month highs, though some profit-taking set in as the week came to a close. Hopefully, the weekend will bring some positive developments in Myanmar and China (or, at least, a beginning to the end of the devastation).

## *Economically Speaking...*

### **Weekly Economic Calendar**

<b>Date</b>	<b>Release</b>	<b>Comments</b>
May 12	Treasury Budget Statement (04/08)	April surplus over 10% lower than in 2007
May 13	Retail Sales (04/08)	Net loss, though gains when factoring out weak auto sales
May 14	CPI (04/08)	Better than expected reading on retail inflation
May 15	Initial Jobless Claims (05/10/08)	Slight increase in claims
	Industrial Production (04/08)	2 <sup>nd</sup> consecutive monthly decline
May 16	Housing Starts (04/08)	Biggest increase in construction in more than 2 years
<b>The Week Ahead</b>		
May 19	Leading Eco. Indicators (4/08)	
May 20	PPI (04/08)	
May 21	Fed Minutes	
May 22	Initial Jobless Claims (05/17/08)	
May 23	Existing Home Sales (04/08)	

Analysts are such a fickle bunch. Just a few weeks ago, virtually everyone and their mothers believed that recession was inevitable (my mother was a holdout). In a recent **Merrill Lynch** survey, only 29% of global fund managers expect the dreaded “R” word to rear its ugly head and many now feel that inflation is a greater domestic concern. Some economists are crediting the work of the Fed for improving the credit markets, though Dr. B. himself claimed that the situation remained “*far from normal.*” Bernanke, however, did praise financial institutions by noting he is “*encouraged by the recent ability of banks to raise capital from diverse sources.*” Meanwhile, the bankers themselves continued to offer less than favorable assessments. **JPMorgan/Chase’s** CEO, Jamie Dimon, feels that the credit crisis is nearing an end, but “*the recession is just beginning.*” Likewise, **Bank of America’s** Global Consumer Banking President, Liam McGee, finds that consumers still feel “*significant economic pressure.*”

Turning to the numbers, retail sales dropped by 0.2% in April as auto sales suffered its worst showing in 10 months. Once autos were factored out of the data (some economists always look for that silver lining), retail sales actually surged by 0.5%, a much better result than many analysts had expected. Likewise, the news from the inflation front was not half-bad either. CPI climbed by only 0.2%, despite the significant rise in food costs. Still, many economists point out that oil and gas prices are setting new records daily (thanks Goldman) and the overall inflation picture may get worse before it gets better. Though housing starts skyrocketed in April by its largest gain in over two years, the naysayers remain pessimistic on the sector, contending that the increase was the result of apartment construction and single-family home starts continue to struggle. Despite some positive economic readings, a consumer confidence poll revealed that recent sentiment fell to its lowest level in 28 years.

***On the Horizon...***The inflation/recession debate undoubtedly continues (with maybe a few *stagflation* comments thrown in for good measure). While the wholesale inflation gauge (PPI) provides another look into how escalating food and energy prices are impacting the economy, the most recent moves in oil and gas may not be factored in for another month or two. On an optimistic note, gasoline prices historically peak around Memorial Day and then fall throughout the remainder of the summer. While the Energy Department had previously projected average prices at the pump to hit \$3.73/gallon before falling, that number has already been surpassed and consumers in some parts of California and Hawaii are paying in excess of \$4.00. The release of the minutes from the last Fed meeting should give a tad more insight into the mindset of those policy-makers and just how likely they will be to sit tight and watch the stimuli take effect (and hold off on further rate activity). More retailers report earnings (**Target, Home Depot, Gap**), though few surprises are expected at this point in the season. Any new thoughts, Mom?