Commentary from John D. Skjervem, CFA, Chief Investment Officer, Personal Financial Services

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Financial markets rallied last week, providing investors with a much welcome respite from the declines in risk-based asset prices that began five weeks ago. The Standard & Poor's (S&P) 500 index, a popular proxy for large-capitalization U.S. stocks, finished last week 2.5% higher. The NYSE Composite, representing an even broader swath of the U.S. equity market, pushed ahead by more than 3% at the close of trading on Friday. The technology-laden Nasdaq index edged higher too, and although its weekly gain proved more modest at 1.1%, it joined both small- and mid-capitalization indexes in retaking their respective 200-day moving average price trends. Investors should gain more confidence that the market's current corrective phase has been completed once broad, big-cap indexes like the S&P 500 and Dow Jones Industrial Average recover to levels exceeding their respective 200-day moving averages.

In international trading, improved sentiment surrounding the European Union's political and financial response to the sovereign debt crises in several Mediterranean countries helped propel most European bourses to gains for the week. Driving this constructive tone was a series of successful sovereign debt auctions. By week's end, Portugal, Spain, Ireland and Italy had each issued new public debt in auctions that attracted better-than-expected demand.

Investors were also comforted by comments from European Central Bank (ECB) President Jean-Claude Trichet following the conclusion of the ECB's regularly scheduled monthly meeting this past Thursday. As expected, the ECB kept its overnight borrowing rate steady at 1%, and Mr. Trichet reiterated the ECB's commitment to its own quantitative easing program. Specifically, Mr. Trichet said the ECB would continue to provide generous liquidity facilities to European banks and expand the ECB's balance sheet through additional sovereign bond purchases.

Economic data from last week perfectly illustrated the current global growth dynamic. Business and trade activity in developing countries surged, while economic growth rates among developed nations remain considerably below typical post-recession levels. For example, Brazil announced last week that its gross domestic product (GDP) in the quarter ended March 31, 2010, advanced 9% from the same period last year, the strongest Brazilian GDP growth in 14 years! Also last week, Chinese authorities reported that their country's exports jumped 48.5% in May, a clear sign that below-trend U.S. growth and a slumping euro haven't yet curbed foreign demand for Chinese goods.

In the United States, the pulse of economic activity slowed, and a number of reports confirmed that this recovery remains uncomfortably tepid. The week's most important data point came early Friday morning when the Commerce Department reported that retail sales in May fell for the first time in eight months. The 1.2% drop in monthly retail sales caught investors and analysts off guard, as the latter had projected a 0.2% gain for May following April's strong 0.6% advance. Particularly surprising was the decline in auto sales even though dealers had previously reported higher May unit sales. In the labor market, progress remains elusive, as last week's installment of first-time unemployment claims was virtually unchanged from the week before. Ominously, the four-week average of first-time claims rose for the fourth straight week to its highest level in three months, a clear indication that U.S. economic growth remains insufficient to shrink the nation's unemployment rolls.

Confirming this sub-par growth trajectory, the Economic Cycle Research Institute (ECRI) announced last week that its index of leading economic indicators fell to the lowest level in more than a year. According to ECRI officials, the abrupt decline in the leading indicators suggests slower growth in the second half of the year, but they added that the weakening trend is not yet severe enough to signal the onset of another recession. Last week's news did include a silver lining, however, when Friday's Reuters/University of Michigan survey of consumer confidence rose to its highest level since December 2007.