

## Economic & Earnings Commentary

Monetary policy could serve as a powerful tool to stimulate economic growth. It works by easing financial conditions through improved liquidity and reduced interest rates. The markets are looking for central bank leadership in the current environment of a synchronized worldwide slowdown. The Chinese economy is slowing down, the Euro-zone seems to have slipped into a recession, and the outlook for the U.S. economy remains sub-par. The profit warning from **FedEx (FDX)** is the latest manifestation of this worldwide phenomenon.

But the effectiveness of fresh monetary easing is unlikely to be the same in each region. Interest rates and bank reserve requirements have plenty of room to fall in China. The European Central Bank could cut short-term interest rate as well, but the more effective measure that they could do is to ease conditions for the fiscally weak nations by purchasing their bonds. Expectations are growing that the ECB will come out with a bond-purchase program at its meeting tomorrow. Disagreements remains within the Euro-zone policy elites about the optimal course of action. But a bond purchase program could go some way towards easing pressure on the beleaguered Spanish and Italian governments.

The U.S. Fed is also expected to come out with a fresh bond-purchase program, the third for the Fed, at its meeting next week. But monetary policy may not have as much traction in the U.S. case as it is expected to have in the cases of China and the Euro-zone. In this speech at Jackson Hole, Bernanke attributed a fair amount of economic growth to the totality of unconventional monetary measures implemented in the last three years. But with financial conditions already quite favorable, a fresh round of bond purchases may not have much relevance.

## Recent Highlights

- ❑ ISM Manufacturing Index down to 49.6 (09/04)
- ❑ Construction Spending down 0.9% (09/04)
- ❑ Factory Orders up 2.8% in July (08/31)
- ❑ Initial Claims flat at 374,000 (08/30)

## Upcoming Releases

- ❑ Initial Claims (09/06 at 8:30 AM EST)
- ❑ ISM Services Index (09/06 at 10:00 AM EST)
- ❑ Crude Inventories (09/06 at 10:30 AM EST)
- ❑ Unemployment Rate (09/07 at 8:30 AM EST)

## Market News Summary

A report suggesting contraction in US manufacturing activity took a toll on investor sentiment and benchmarks ended mostly lower on Tuesday. While markets looked en route for a bigger fall, tech-bellwether Apple's shares rallied strongly to cut some of the losses by the end of the day.

The Dow Jones Industrial Average (DJI) dropped 0.4% and ended at 13,035.94. The Standard & Poor 500 (S&P 500) slipped a mere 0.1% to finish Tuesday's trading session at 1,404.94. The tech-laden Nasdaq Composite Index edged up 0.3% and closed at 3,075.06. The fear-gauge CBOE Volatility Index (VIX) added 2.9% and settled at 17.98. Consolidated volumes on the New York Stock Exchange, the American Stock Exchange and Nasdaq were roughly 5.53 billion shares, lower than last year's daily average of 7.84 billion. Advancing stocks outpaced the decliners on the NYSE; as for 57% stocks that advanced, 39% stock closed lower.

Much of the day's action was dominated by discouraging economic readings before a surge in Apple Inc.'s (NASDAQ:AAPL) shares helped to somewhat offset the negative sentiment. As for the economic readings, investors were dealt a rude shock when they learnt manufacturing activity was at its lowest level since July 2009. The Institute for Supply Management reported that the Purchasing Managers' Index (PMI) dropped 0.2% to 49.6% in August. This marked not only the lowest level for the PMI, but was also the third straight month that the index contracted. The ISM Manufacturing Index is based on surveys of 300 purchasing managers nationwide, representing 20 industries regarding manufacturing activity. Thus, this is definitely a key index and the contraction is being viewed as a grim headwind.

Also, the U.S. Census Bureau of the Department of Commerce reported that construction spending declined 0.9% from the June estimate to a seasonally adjusted annual rate of \$834.4 billion in July. The 0.9% decline was in contrast to consensus estimates of a 0.4% gain. Further, spending on private construction dropped 1.2% from June and public construction spending slipped 0.4%.

Markets traded in the red following these reports. However, an invitation by Apple for an event next week lifted the mood. The event is believed to shed a definite light on the long-anticipated iPhone 5. This will be the latest version of iPhone after Apple unveiled iPhone 4S late last year. Following the launch of iPhone 4S, markets had been expecting iPhone 5. News about the invitation sparked off cheers and Apple's shares ended 1.5% higher at \$674.97 a share.

Apple is the Nasdaq's biggest component and is also the most valuable company in the world currently. Movement in Apple's shares has the potential to drive the broader markets at times, and such was the case yesterday. The Nasdaq rebounded from a loss and the S&P 500 managed to negate most of its day's losses.

However, other major tech shares did not enjoy a winning rally and stocks such as Oracle Corporation (NASDAQ:ORCL), Microsoft Corporation (NASDAQ:MSFT), Intel Corporation (NASDAQ:INTC), Dell Inc. (NASDAQ:DELL), SanDisk Corporation (NASDAQ:SNDK) and Cisco Systems, Inc. (NASDAQ:CSCO) dropped 0.3%, 1.4%, 1.7%, 0.3%, 0.8% and 0.5%, respectively.

On the other hand, investors also waited to see what European Central Bank (ECB) President Mario Draghi has to announce after the ECB meeting on Thursday. Last week, US Federal Reserve Chairman Ben Bernanke had announced that the central bank "will provide additional policy accommodation as needed to promote a stronger economic recovery and sustained improvement in labor market conditions in a context of price stability". However, he stopped short of announcing any economic measures at the moment.

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## Corporate News Summary

- Campbell Soup Company (NYSE:CPB) reported fourth quarter earnings per share of \$0.41, beating the Zacks Consensus Estimate of \$0.38
- Smithfield Foods, Inc. (NYSE:SFD) posted first quarter earnings per share of \$0.40, missing the Zacks Consensus Estimate of \$0.45
- Shares of Netflix, Inc. (NASDAQ:NFLX) plunged 6.3% after its rival Amazon.com, Inc. (NASDAQ:AMZN) said it has concluded a multiyear licensing deal in the U.S. with movie channel, EPIX
- MannKind Corporation (NASDAQ:MNKD) lost 6.3% after it announced that it will offer up to \$500 million of mixed securities including common and preferred stock, warrants, and debt securities