

August 4, 2011

Markets Tumble on Signs of Weakening Global, U.S. Economies

Stocks fell sharply today around the world, accelerating a widespread decline that began as the United States approached the August 2 deadline for averting default and then resumed with even more intensity after a brief rally when a debt/budget deal was reached in Washington. On Thursday, the Dow Jones Industrial Average fell 512.76, or 4.31%, while the broader S&P 500 dropped 60.27, or 4.78%, and the tech-oriented Nasdaq declined 136.68, or 5.67%.

At today's close of 1,200.07, the S&P 500 has now slumped almost 12% from its April 29 closing high of 1,360.14, putting the market into what Wall Street considers a "correction" – generally defined as a pullback of 10% to 20% (declines greater than 20% are considered bear markets). For perspective, the market experienced a 16% correction in the summer of 2010 before rebounding after Fed Chairman Ben Bernanke announced the monetary stimulus policy widely referred to as QE2.

Although investors were cheered that the U.S. did not default, their focus quickly moved on to intensifying concerns that leaders both here and abroad have not done enough to address weakening economic growth both in the U.S. and globally. In the U.S., recent economic reports have raised fears that the U.S. economy might be in danger of tipping over into a recession. In Europe, a second major rescue package for Greece did not reassure investors, who have begun to focus on the debt problems confronting the much larger and more important economies of Italy and Spain. Investors there drove British stocks down 3.4%, while in Germany, the DAX index dropped 3.4% and in France, the CAC 40 closed down 3.9%.

Today's action shows that investors are fleeing so-called "risk assets" such as stocks in favor of other asset classes they perceive as safer. Upcoming reports on U.S. employment and other economic trends will play a large role in determining whether investors can regain their confidence in the near-term.

We want to assure you that we are following the markets closely and will of course continue to do so. While declines of this nature are obviously a matter of concern, it's also very important not to overreact. If you have any concerns about the current investment climate, please give us a call.

For additional insights on the current economic situation, check out the most recent edition of Professionally Speaking featuring Raymond James Chief Economist Scott Brown, Ph.D. You can access this audio presentation by visiting the Raymond James website at www.raymondjames.com/experts/brown.htm.

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