MV Capital Management Midweek Market Commentary

September 6th, 2012

After a somewhat lackluster first few days in September, global markets have rallied today on strong U.S economic reports and details on the ECB's plans to help struggling European bond markets.

Although the August employment report will be reported on Friday (9/7), markets have reacted positively to the Private Sector jobs report, which reported numbers significantly higher than analysts' estimates and is the largest gain in 5 months. Initial jobless claims were also lower than expected and the service-sector activity has increased from July to August, further fuelling the positive market reaction. However, not all is hunky dory – despite the recent improvement in these data reports, unemployment has persistently hovered around 8%, hiring patterns have continued to be weak and US manufacturing contracted for a third straight month in August.

Tomorrow's jobs report follows the end of the Democratic National Convention, and could potentially overshadow any warm-fuzzy feelings generated from President Obama's bid for reelection tonight. Analysts are estimating a deceleration of 38,000 jobs from July to August and unemployment to remain at 8.3%, numbers that will likely not do the President any favors. On the flip side, should the numbers significantly outperform expectations we may see some amplification to any 'Obamamentum' coming out of the convention.

Meanwhile, across the pond ECB President Mario Draghi outlined a forthcoming Sovereign bond-buying program. Under the program, the ECB could potentially purchase an unlimited amount of Sovereign debt with maturities between one and three years. The program, dubbed "Outright Monetary Transactions", is intended to provide a "fully effective backstop" against market volatility as well as reduce borrowing costs for struggling Eurozone countries.

Following Draghi's announcement, Spain and Italy's bond yields eased significantly and European stock markets rallied with the FTSE 100 increasing 2.04% and the DAX increasing 2.77% for the day. US stock markets have followed suit, and as of midday Thursday the S&P 500 gained 1.9% and the Dow isn't far behind with a 1.8% increase. In contrast, Treasuries suffered with the yields on 10-year Treasury notes rising to 1.6675% by noon as the appeal of safe-haven assets diminished – as we would typically expect – in response to the positive economic data.

Courtney Martin
Investment Analyst

Katrina Lamb, CFA
Senior Investment Analyst

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