

Corporate earnings surprises also provided support to rising stock prices in July. At month-end, roughly 75 percent of S&P 500 companies had exceeded analysts' second-quarter expectations, as companies' cost-cutting measures more than compensated for a general decline in revenues. In fact, revenues for nonfinancial companies declined 15 percent compared with the previous year. And while better-than-expected earnings in the current quarter were viewed positively by the market, cost-cutting measures can only go so far; topline revenue growth will need to pick up in order to increase earnings on a sustainable basis going forward.

Employment and consumption lag

In conjunction with an improvement in corporate revenues, it is probable that a sustainable economic recovery will require improvements in both private sector employment and personal consumption—as governmental stimulus and spending, now playing such important roles, can also go only so far. Employment statistics, similar to GDP, remained in negative territory in recent months, but the rate of decline has improved. In June, for example, the domestic economy lost 467,000 jobs, compared with peak job losses of 741,000 in January.

And though the better-than-expected 1-percent decline in GDP was heralded as a positive, the details of the report revealed that personal consumption had fallen 1.2 percent—a figure roughly twice as bad as had been expected, indicating that household balance sheets remain under pressure and that consumers may be embracing a newfound sense of thrift.

Signs of healing

As should be expected in the aftermath of a quite severe global economic shock, the road to recovery will likely be bumpy and uneven. Likewise, investors expecting portfolios to reclaim their peak values should be prepared to exercise patience—those previous high-water marks may rep

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