Economic & Market Review

~ July 2014 Investment Newsletter ~

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Monthly Summary

Despite favorable domestic economic news and generally positive second quarter earnings reports, investment markets lost ground in July. Increasingly concerned about market valuations and tight credit spreads, investors looking for an excuse to lock in portfolio gains found several across the geopolitical landscape.

- The U.S. and Europe escalated Russian sanctions following the horrific downing of an airliner overflying Ukraine. Unfortunately, hampering key Russian industries will have negative implications for an already struggling European economy as well.
- Hundreds have died in Israeli-Palestinian rocket attacks and bloody ground battles. Thus far, various attempts at a cease fire have proven fruitless.
- The Sunni insurgency in Iraq continues to make headlines and poses added geopolitical uncertainty for OPEC's second largest oil producer.

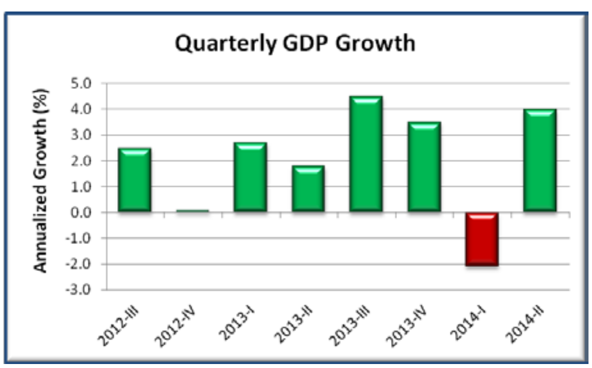
If these issues were not enough, the flames of July's risk-off environment were further fanned by Argentina's month-end debt default and credit issues in Portugal (now bleeding over to other countries as August gets underway).

Economic Data

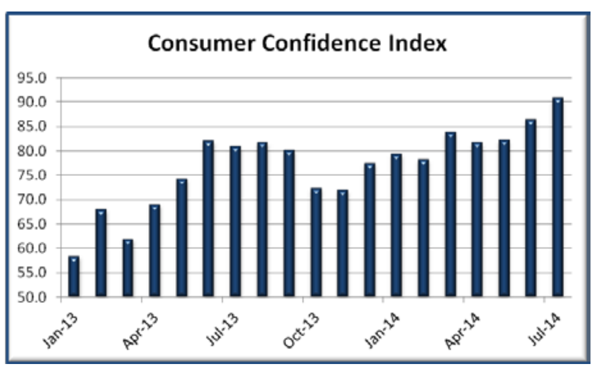
General	Prior	Current
GDP growth	-2.1% (Q1)	4.0% (Q2)
Trade balance	-$47.0 B (Apr)	-$44.4 B (May)

Employment	Prior	Current
Initial jobless claims	279,000 (7/19)	302,000 (7/26)
Continuing claims	2.5 MM (7/12)	2.5 MM (7/19)
Change in nonfarm payrolls	224,000 (May)	288,000 (Jun)
Unemployment rate	6.3% (May)	6.1% (Jun)
Average weekly hours	34.5 (May)	34.5 (Jun)

Consumer	Prior	Current
Consumer confidence index (Conf. Board)	86.4 (Jun)	90.9 (Jul)
Retail sales growth (YoY)	4.8% (May)	4.3% (Jun)
Change in consumer credit	$26.1 B (Apr)	$19.6 B (May)



Data Source: U.S. Department of Commerce

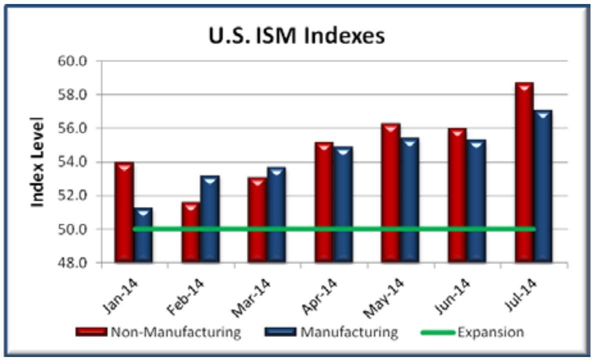


Data Source: Bloomberg/The Conference Board

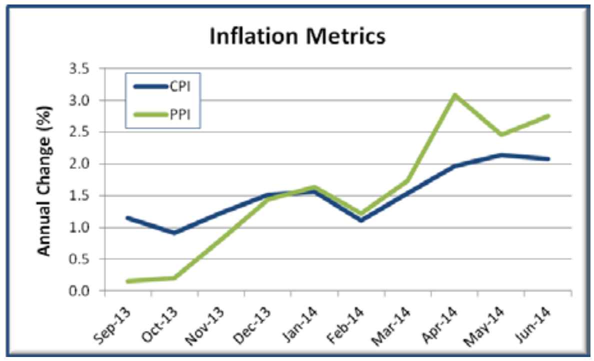
Manufacturing & Service	Prior	Current
ISM manufacturing index	55.4 (May)	55.3 (Jun)
ISM non-manufacturing index	56.3 (May)	56.0 (Jun)
Durable goods orders growth	-1.0% (May)	0.7% (Jun)
Industrial production growth	0.5% (May)	0.2% (Jun)
Capacity utilization	79.1% (May)	79.1% (Jun)

Real Estate	Prior	Current
New home sales	442,000 (May)	406,000 (Jun)
Existing home sales	4.9 MM (May)	5.0 MM (Jun)
Case-Shiller home price index (YoY)	10.8% (Apr)	9.3% (May)

Inflation	Prior	Current
Consumer price index/Core (YoY growth)	2.1%/2.0% (May)	2.1%/1.9% (Jun)
Producer price index/Core (YoY growth)	2.0%/2.0% (May)	1.9%/1.8% (Jun)



Data Source: Institute for Supply Management



Data Source: U.S. Department of Labor

Market Returns

The S&P 500 lost 1.4% for the month and is now up 5.7% for the year. Developed international equity markets, as defined by the MSCI EAFE index, were down 2.0% in July while the MSCI Emerging Markets index rose 1.9%. Year-to-date, international developed and emerging markets have returned 2.7% and 8.2%, respectively.

In the fixed income market, the Barclays U.S. Aggregate index lost 0.3% for the month, and the yield on the 10-year U.S. Treasury note ended little changed at 2.58%. For the year, the Barclays U.S. Aggregate is up 3.7%. High yield credit spreads widened modestly during the month as investors pared back on risk. The Barclays High Yield index lost 1.3% in the process. Despite the worst monthly performance for junk bonds in over a year, the asset class has gained 4.1% in 2014. International bonds were down 1.3% for the month taking year-to-date gains to 4.2%. In other markets, the DJ U.S. Real Estate index was essentially flat in July while commodities lost 5.0%. Year-to-date, the real estate index is up 16.3%, the best performing asset class for the year, and commodities have given back nearly all of their previous gains, up only 1.7% year-to-date.