Economic & Market Review

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Monthly Summary

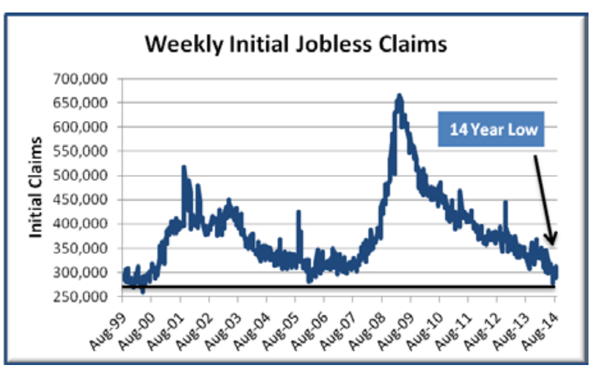
Economic and geopolitical forces led to a highly unusual, albeit positive, environment for investment markets in August. By month-end, favorable domestic economic data enabled the S&P 500 index to hit its 32nd high for the year. Labor market strength, small business confidence, an upward revision to Q2 GDP growth, solid earnings results, and an acceleration in manufacturing were all stock market positives. Fixed income markets thrived as well, but for different reasons. First, geopolitical tensions in Iraq, Ukraine, and Israel pushed yields lower as investors sought traditional safe havens in the bond markets. Second, in contrast to the U.S., economic weakness prevailed internationally. GDP results for Q2 showed Europe's already weak recovery had faltered, and Japan's economy contracted materially. Likewise, China has shown signs of slowing this quarter. Resulting expectations for aggressive central bank support, particularly by the ECB, drove both international and domestic bond yields to fresh lows. The fact that inflation is both contained in the U.S. and uncomfortably low in Europe gives central bankers plenty of latitude - even the need - for a strong policy response. In the end, global tension, weak international economies, low inflation, and aggressive central bankers all provide investors with greater confidence in the persistency of low, if not falling, yields.

Economic Data

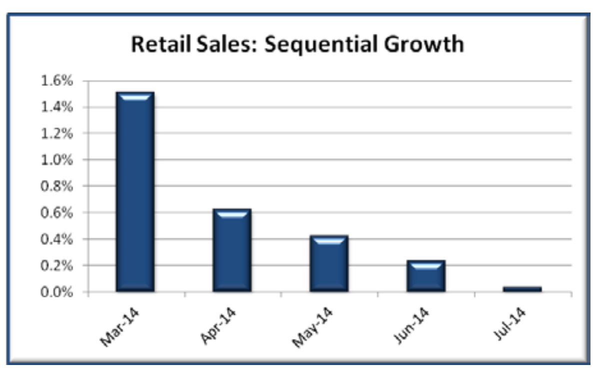
General	Prior	Current
GDP growth	-2.1% (Q1)	4.2% (Q2)
Trade balance	-$44.7 B (May)	-$41.5 B (Jun)

Employment	Prior	Current
Initial jobless claims	299,000 (8/16)	298,000 (8/23)
Continuing claims	2.5 MM (8/7)	2.5 MM (8/16)
Change in nonfarm payrolls	298,000 (Jun)	209,000 (Jul)
Unemployment rate	6.1% (Jun)	6.2% (Jul)
Average weekly hours	34.5 (Jun)	34.5 (Jul)

Consumer	Prior	Current
Consumer confidence index (Conf. Board)	90.3 (Jul)	92.4 (Aug)
Retail sales growth (YoY)	4.3% (Jun)	4.2% (Jul)
Change in consumer credit	$19.6 B (May)	$17.3 B (Jun)



Data Source: U.S. Department of Labor



Data Source: U.S. Department of Commerce

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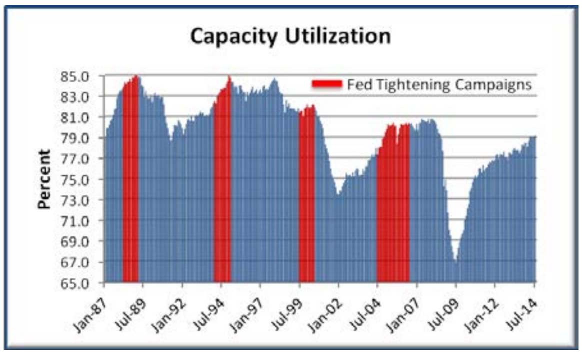
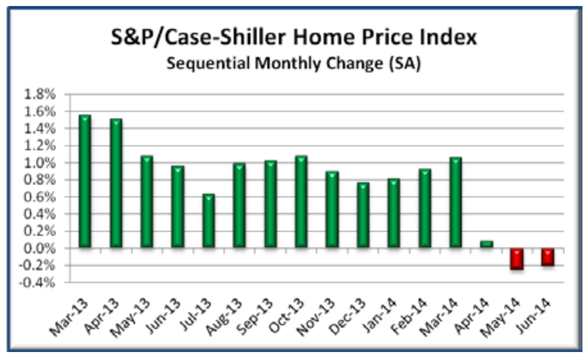
Manufacturing & Service	Prior	Current
ISM manufacturing index	55.3 (Jun)	57.1 (Jul)
ISM non-manufacturing index	56.0 (Jun)	58.7 (Jul)
Durable goods orders growth	2.7% (Jun)	22.6% (Jul)
Industrial production growth	0.4% (Jun)	0.4% (Jul)
Capacity utilization	79.1% (Jun)	79.2% (Jul)

Real Estate	Prior	Current
New home sales	422,000 (Jun)	412,000 (Jul)
Existing home sales	5.0 MM (Jun)	5.2 MM (Jul)
Case-Shiller home price index (YoY)	9.4% (May)	8.1% (Jun)

Inflation	Prior	Current
Consumer price index/Core (YoY growth)	2.1%/1.9% (Jun)	2.0%/1.9% (Jul)
Producer price index/Core (YoY growth)	1.9%/1.8% (Jun)	1.7%/1.6% (Jul)



Data Source: U.S. Federal Reserve



Data Source: S&P/Case-Shiller

Market Returns

The S&P 500 gained 4.0% for the month and is up 9.9% for the year. Developed international equity markets, as defined by the MSCI EAFE index, were down 0.2% in August while the MSCI Emerging Markets index rose 2.3%. Year-to-date, international developed and emerging markets have returned 2.6% and 9.8%, respectively.

In the fixed income market, the Barclays U.S. Aggregate index gained 1.1% for the month, and the yield on the 10-year U.S. Treasury note fell 23 basis points to end at 2.35%. For the year, the Barclays U.S. Aggregate is up 4.8%. High yield credit spreads tightened somewhat during the month but remain wider than lows set in June. The Barclays High Yield index advanced 1.6% in the process for a 5.7% YTD gain. Although junk bonds have slightly outperformed the Barclays U.S. Aggregate in 2014, they have underperformed both investment grade corporate bonds as well as municipals. International bonds were up 0.2% for the month taking year-to-date gains to 4.3%. In other markets, the DJ U.S. Real Estate index is up 20.3% in 2014 after rising 3.5% in August while commodities, now essentially flat for the year, lost 1.0%.