Economic & Market Review

~ July 2013 Investment Newsletter ~

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Monthly Summary

Following a tumultuous May and June, investment markets returned to a more settled state in July. Interest rates stabilized, albeit at higher levels, and domestic equity markets rose to reach new all-time highs. All major asset classes gained for the month with the exception municipal bonds and long-term U.S. Treasuries.

The relative stability in July was largely a result of the Federal Reserve providing clarification to the process and timing of tapering bond purchases. Apparently, market participants misunderstood and overreacted to initial Fed communications. To dial back on the third round of quantitative easing (i.e. QE3), the Fed will need to see a pickup in inflation, an acceleration in U.S. economic growth, and continued improvement in the labor market. The Fed also acknowledged the rise in mortgage rates and will no doubt be monitoring the progress of the housing market as well.

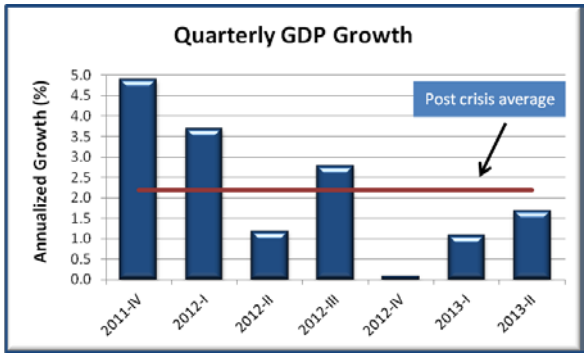
Fed clarification was helpful and overpowered other geopolitical and economic events in July. That being said, various pressure points did surface during the month. On the home front, first quarter GDP growth was revised lower to a paltry 1.1% and second quarter growth was not much better, only 1.7%. U.S. fiscal gridlock also continued and contributed to Congress receiving an 83% disapproval rating, an all-time high. Lastly, Detroit's bankruptcy filing became the largest municipal failure in U.S. history. Internationally, China's growth continued to slow, political turmoil rose in peripheral Europe, and Egypt erupted into violence following a military coup that ousted President Mohamed Morsi.

Economic Data

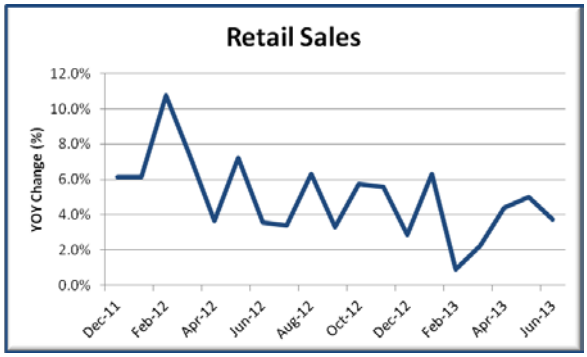
General	Prior	Current
GDP growth	1.1% (Q1)	1.7% (Q2)
Trade balance	-$40.1 B (Apr)	-$45.0 B (May)

Employment	Prior	Current
Initial jobless claims	336,000 (7/13)	343,000 (7/20)
Continuing claims	3.1 MM (7/6)	3.0 MM (7/13)
Change in Nonfarm payrolls	195,000 (May)	195,000 (Jun)
Unemployment rate	7.6% (May)	7.6% (Jun)
Average weekly hours	34.5 (May)	34.5 (Jun)

Consumer	Prior	Current
Consumer confidence index (Conf. Board)	82.1 (Jun)	80.3 (Jul)
Retail sales growth (YoY)	0.5% (May)	0.4% (Jun)
Change in consumer credit	$10.9 B (Apr)	$19.6 B (May)



Data Source: U.S. Department of Commerce

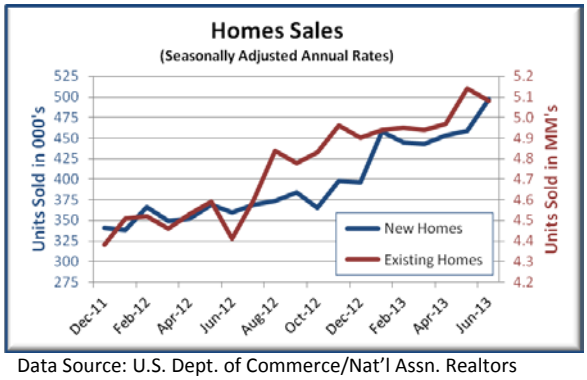


Data Source: The Department of Commerce

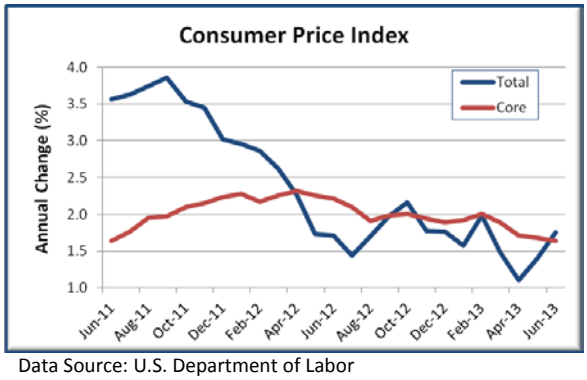
Manufacturing & Service	Prior	Current
ISM manufacturing index	49.0 (May)	50.9 (Jun)
ISM non-manufacturing index	53.7 (May)	52.2 (Jun)
Durable goods orders growth	5.2% (May)	4.2% (Jun)
Industrial production growth	0.0% (May)	0.3% (Jun)
Capacity utilization	77.7% (May)	77.8% (Jun)

Real Estate	Prior	Current
New home sales	459,000 (May)	497,000 (Jun)
Existing home sales	5.1 MM (May)	5.1 MM (Jun)
Case-Shiller home price index (YoY)	12.1% (Apr)	12.2% (May)

Inflation	Prior	Current
Consumer price index/Core (YoY growth)	1.4%/1.7% (May)	1.8%/1.6% (Jun)
Producer price index/Core (YoY growth)	1.7%/1.7% (May)	2.5%/1.7% (Jun)



Data Source: U.S. Dept. of Commerce/Nat'l Assn. Realtors



Data Source: U.S. Department of Labor

Market Returns

The S&P 500 gained 5.1% for the month and is now up 19.6% for the year. Developed international equity markets, as defined by the MSCI EAFE index, were up 5.3% in July while the MSCI Emerging Markets index rose 1.0%. Year-to-date, international developed and emerging markets have returned 9.6% and -8.6%, respectively.

In the fixed income market, the Barclays U.S. Aggregate index gained 0.1% for the month, and the yield on the 10-year U.S. Treasury bond changed little to end at 2.60%. For the year, the Barclays U.S. Aggregate is down 2.3%. High yield credit spreads tightened throughout the month, almost completely reversing the widening experienced during the previous two months. The Barclays High Yield index gained 1.9% in July and is up 3.3% so far this year. International bonds gained 2.0% for the month and are now down 4.6% for the year-to-date. Lastly, the Dow Jones UBS Commodity index was up 1.4% in July, and the Dow Jones U.S. Real Estate index gained 0.4% for the month.