

Economic & Market Review

~ August 2013 Investment Newsletter ~

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Monthly Summary

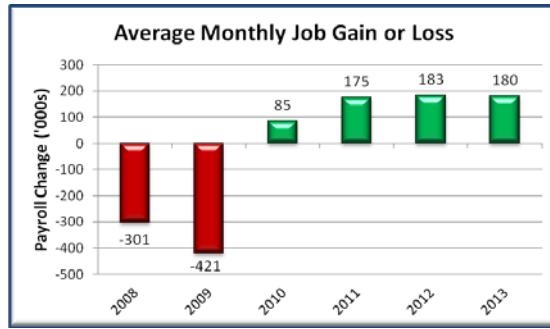
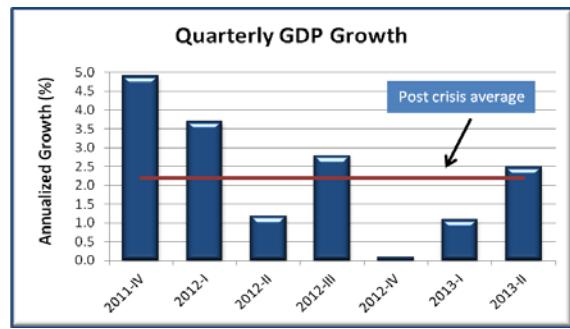
Generally favorable economic developments in August were overshadowed by insecurity over Federal Reserve policy as well as the possibility of U.S. military action in Syria. Ongoing economic experiments in both China and Japan added to the mix of uncertainty and fiscal issues in Greece are once again bubbling to the surface. Investment markets fared poorly. U.S. interest rates ticked higher, bond fund outflows continued to hit the record books, and a number of emerging market currencies have been hammered since May.

Despite the challenges, a number of bright spots have surfaced. Manufacturing showed improvement in Europe, China, and the U.S. Retail sales have been attractive in China as well as the U.S., and domestic auto demand is back to pre-crisis levels. The U.S. trade deficit narrowed sharply in June driven by record exports and a shrinking bill for oil imports. Of course, the commensurate benefit was realized in the form a material upward revision to second quarter U.S. GDP growth.

Looking forward, the calendar is packed with near-term economic and geopolitical events. The Federal Reserve ends a two-day meeting on September 18 with many investors expecting the start of tapering (i.e. reduced Fed bond purchases). German elections take place on September 22. Chancellor Merkel has adroitly avoided a number of politically treacherous European issues that will likely rise to the surface following her expected re-election. Congress must find a pathway to fund the U.S. government by October 1 and raise the debt ceiling by mid-October. Lastly, Obama's desire for military action against Syria remains in limbo due to a nearly ubiquitous absence of both domestic and international support.

Economic Data

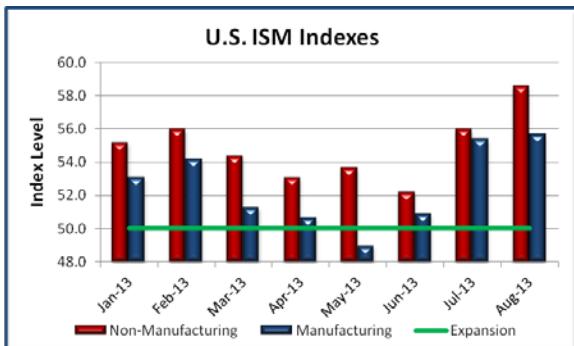
| <u>General</u> | <u>Prior</u> | <u>Current</u> |
|---|-----------------|-----------------|
| GDP growth | 1.1% (Q1) | 2.5% (Q2) |
| Trade balance | -\$44.1 B (May) | -\$34.2 B (Jun) |
| <u>Employment</u> | <u>Prior</u> | <u>Current</u> |
| Initial jobless claims | 337,000 (8/17) | 331,000 (8/24) |
| Continuing claims | 3.0 MM (8/10) | 3.0 MM (8/17) |
| Change in Nonfarm payrolls | 104,000 (Jul) | 169,000 (Aug) |
| Unemployment rate | 7.4% (Jul) | 7.3% (Aug) |
| Average weekly hours | 34.4 (Jul) | 34.5 (Aug) |
| <u>Consumer</u> | <u>Prior</u> | <u>Current</u> |
| Consumer confidence index (Conf. Board) | 81.0 (Jul) | 81.5 (Aug) |
| Retail sales growth (YoY) | 4.0% (Jun) | 6.8% (Jul) |
| Change in consumer credit | \$19.6 B (May) | \$13.8 B (Jun) |



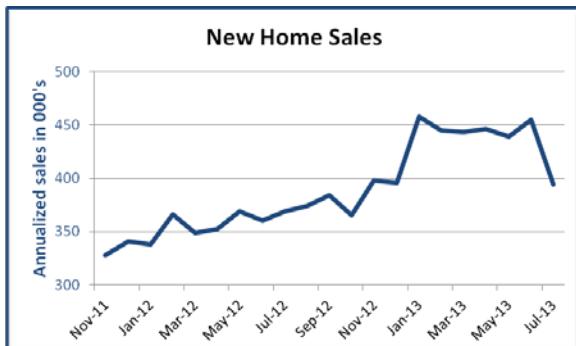
| Manufacturing & Service | Prior | Current |
|------------------------------------|--------------|----------------|
| ISM manufacturing index | 55.4 (Jul) | 55.7 (Aug) |
| ISM non-manufacturing index | 56.0 (Jul) | 58.6 (Aug) |
| Durable goods orders growth | 3.9% (Jun) | -7.3% (Jul) |
| Industrial production growth | 0.2% (Jun) | 0.0% (Jul) |
| Capacity utilization | 77.7% (Jun) | 77.6% (Jul) |

| Real Estate | Prior | Current |
|-------------------------------------|---------------|----------------|
| New home sales | 455,000 (Jun) | 394,000 (Jul) |
| Existing home sales | 5.1 MM (Jun) | 5.4 MM (Jul) |
| Case-Shiller home price index (YoY) | 12.2% (May) | 12.1% (Jun) |

| Inflation | Prior | Current |
|--|-----------------|-----------------|
| Consumer price index/Core (YoY growth) | 1.8%/1.6% (Jun) | 2.0%/1.7% (Jul) |
| Producer price index/Core (YoY growth) | 2.1%/1.2% (Jun) | 2.5%/1.7% (Jul) |



Data Source: Institute for Supply Management



Data Source: U.S. Department of Commerce

Market Returns

The S&P 500 lost 2.9% for the month and is now up 16.2% for the year. Developed international equity markets, as defined by the MSCI EAFE index, were down 1.3% in August while the MSCI Emerging Markets index fell 1.7%. Absent dollar strength, emerging markets would have been nearly flat. Year-to-date, international developed and emerging markets have returned 8.1% and -10.2%, respectively.

In the fixed income market, the Barclays U.S. Aggregate index lost 0.5% for the month, and the yield on the 10-year U.S. Treasury bond rose 18 basis points to end at 2.78%. For the year, the Barclays U.S. Aggregate is down 2.8%. High yield credit spreads were stable during the month with no net change for the period. Junk bond spreads remain well below the 15 year average and near the post-crisis low. The Barclays High Yield index lost 0.6% in August and is up 2.7% so far this year. International bonds lost 0.5% for the month and are now down 5.1% for the year-to-date. In other markets, the DJ U.S. Real Estate index fell 6.3% for the month while heretofore beleaguered commodities were the only major asset class to post gains. The DJ UBS Commodity index was up 3.4%.

Disclaimers

This commentary was written by Robert W. Lamberti, CFA who serves as VP of Investments for Summit Financial Resources, Inc. 4 Campus Drive, Parsippany, NJ 07054. Tel. 973-285-3600, Fax: 973-285-3666. Source of performance: Morningstar®. Indices are unmanaged and cannot be invested into directly. The investment and market data contained in this newsletter is not an offer to sell or purchase any security or commodity. Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The MSCI EAFE and Emerging Markets Indexes were created by Morgan Stanley Capital International (MSCI) and designed to measure equity market performance in global developed and emerging markets, respectively. The Barclays Aggregate Bond Index is a market capitalization-weighted index comprised of government securities, mortgage-backed securities, asset-backed securities, corporate securities, and a small number of foreign bonds traded in the U.S. It is used to represent the universe of bonds in the domestic market. REITs, Real Estate Investment Trusts, are securities that invest in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, however, may have liquidity constraints. Past performance does not guarantee future results. Information throughout this Newsletter, whether stock quotes, charts, articles, or any other statement or statements regarding markets or other financial information, are obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Neither we nor our information providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or for any delay or interruption in the transmission thereof to the reader. To unsubscribe from this investment newsletter please reply to this email with "unsubscribe" in the subject. Opinions expressed are subject to change without notice and are not intended as investment advice or a guarantee of future performance. Consult your financial professional before making any investment decision.

