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.

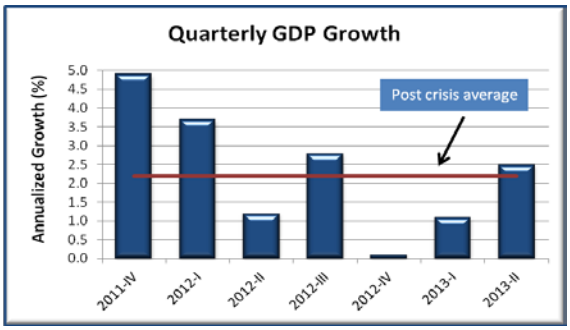
Looking forward, the calendar is packed with near-term economic and geopolitical events. The Federal Reserve ends a two-day meeting on September 18 with many investors expecting the start of tapering (i.e. reduced Fed bond purchases). German elections take place on September 22. Chancellor Merkel has 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

General	Prior	Current
GDP growth	1.1% (Q1)	2.5% (Q2)
Trade balance	-$44.1 B (May)	-$34.2 B (Jun)

Employment	Prior	Current
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)

Consumer	Prior	Current
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)



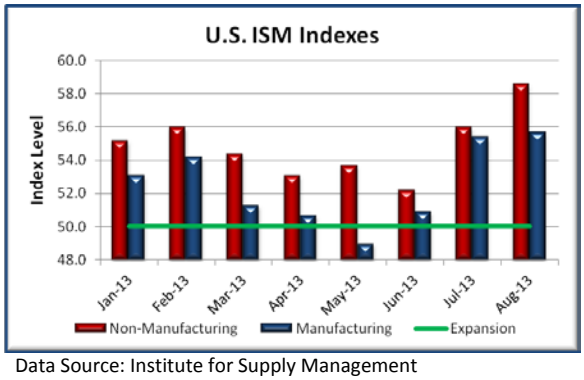
Data Source: U.S. Department of Commerce

Data Source: The Department of Labor

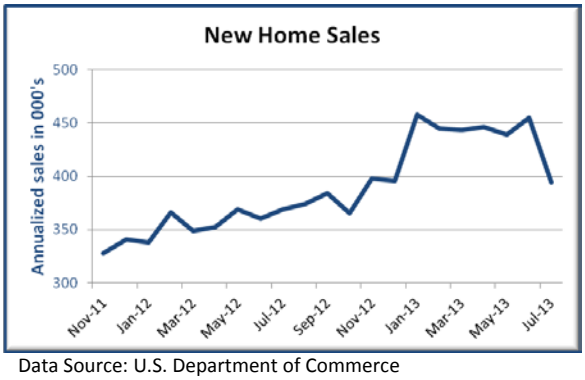
Manufacturing & Service	Prior	Current
ISM manufacturing index	55.4 (Jul)	55.7 (Aug)
ISM non-manufacturing index	56.0 (Jul)	58.6 (Aug)
Durable goods orders growth	3.9% (Jun)	-7.3% (Jul)
Industrial production growth	0.2% (Jun)	0.0% (Jul)
Capacity utilization	77.7% (Jun)	77.6% (Jul)

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%.