

Monthly Summary

Stock markets rallied strongly in July on the heels of positive corporate earnings. As the pace of earnings releases diminished in August, investor focus turned to the economy. Modestly positive developments in manufacturing were outweighed by clear signs of economic headwinds and deceleration in the pace of recovery. By month end, stocks had given back about half of their gains from July while fixed income markets continued their steady march higher.

Second quarter GDP growth was revised from an original estimate of 2.4% down to 1.6%. Employment data was disappointing with further payroll contractions and a rise in initial jobless claims. Housing data continued a weakening trend that began with the April expiration of the government's home buyer tax credit. Year-over-year growth in retail sales has declined for three months in a row, with absolute sales levels now in sequential monthly decline. Economic productivity dropped in the second quarter for the first time in 18 months. The silver lining to this drop is the inference that not much more can be extracted out of current employees. A welcome uptick in hiring may result.

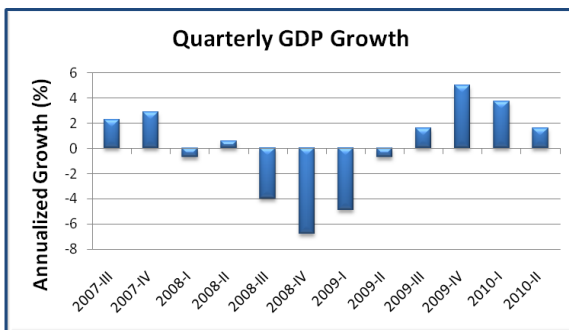
Additional pressure was put on an increasingly tapped out Federal Reserve as investors grew concerned about the potential for deflation. The Fed's response thus far has been to avoid inadvertent monetary tightening by reinvesting their maturing mortgage securities back into U.S. Treasuries. Going forward, we expect a high degree of volatility as investors continue to assess the potential for economic growth and correspondingly translate these expectations into security valuations.

August's Economic Releases

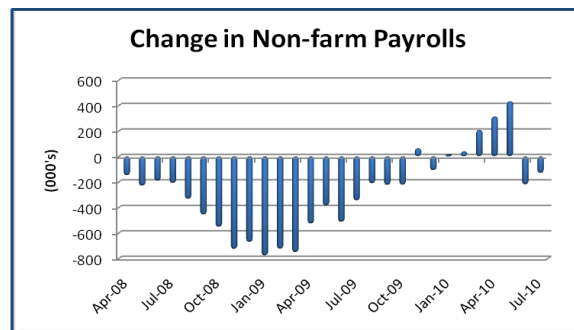
<u>General</u>	<u>Prior</u>	<u>Current</u>
GDP growth	3.7% (Q1)	1.6% (Q2)
Trade balance	-\$42.0 B (Apr)	-\$49.9 B (May)

<u>Employment</u>	<u>Prior</u>	<u>Current</u>
Initial jobless claims	504,000	473,000
Continuing claims	4.5 MM	4.5 MM
Nonfarm payrolls	-221,000 (Jun)	-131,000 (Jul)
Unemployment rate	9.5% (Jun)	9.5% (Jul)
Average weekly hours	34.1 (Jun)	34.2 (Jul)

<u>Consumer</u>	<u>Prior</u>	<u>Current</u>
Consumer confidence index (Conf. Board)	51.0 (Jul)	53.5 (Aug)
Retail sales growth (YoY)	5.9% (May)	4.9% (Jun)
Consumer credit	-\$5.3 B (May)	-\$1.3 B (Jun)



Data Source: Bureau of Economic Analysis



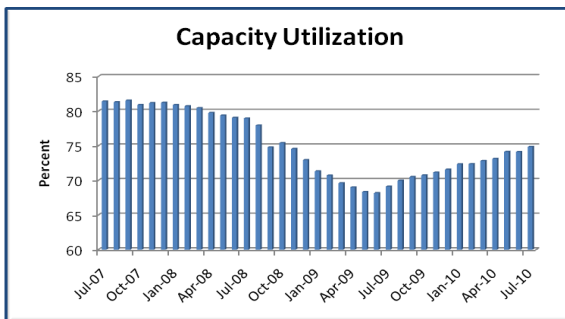
Data Source: Bureau of Labor Statistics



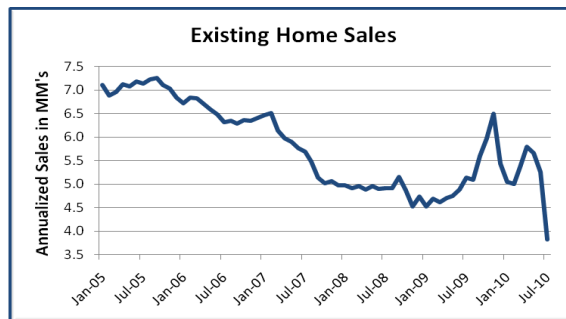
<u>Manufacturing & Service</u>	<u>Prior</u>	<u>Current</u>
ISM manufacturing index	56.2 (Jun)	55.5 (Jul)
ISM non-manufacturing index	53.8 (Jun)	54.3 (Jul)
Durable goods orders growth	-0.1% (Jun)	0.3% (Jul)
Industrial production growth	-0.1% (Jun)	1.0% (Jul)
Capacity utilization	74.1% (Jun)	74.8% (Jul)

<u>Real Estate</u>	<u>Prior</u>	<u>Current</u>
New home sales	315,000 (Jun)	276,000 (Jul)
Existing home sales	5.3 MM (Jun)	3.8 MM (Jul)
Case-Shiller home price index (YoY)	4.6% (May)	4.2% (Jun)

<u>Inflation</u>	<u>Prior</u>	<u>Current</u>
Consumer price index/Core (YoY growth)	1.1%/0.9% (Jun)	1.2%/0.9% (Jul)
Producer price index/Core (YoY growth)	2.8%/1.1% (Jun)	4.2%/1.5% (Jul)



Data Source: U.S. Federal Reserve



Data Source: National Association of Realtors

Market Returns

The S&P 500 index lost 4.5% for the period and is now down 4.6% for the year. Developed international equity markets, as defined by the MSCI EAFE Developed Markets index, were down 3.1% for the month, with about one third of the loss coming from U.S. dollar strength. Emerging markets fared a bit better than their developed counterparts with the MSCI Emerging Markets index down 1.9% for the month. Year-to-date, international developed and emerging markets returned -8.0% and -0.3%, respectively.

In the fixed income market, the Barclays US Aggregate index was up 1.3% for the month and the 10-year U.S. Treasury bond ended with a yield of 2.47%, down an impressive 43bps for the month and a whopping 1.36% in 2010. For the year, the Barclays U.S. Aggregate has gained 7.8%. On a global basis, bonds were up 1.4% for the month and 4.5% for the year.

Commodities and real estate gave back some of their gains from July with each delivering low single digit percentage declines in August.

Disclaimers

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