AUGUST 16, 2010

WeeklyMarket Update

General Market News

- On Tuesday, August 10, the Federal Reserve (Fed) announced that the economy is heading into the second half of the year at a slower pace.
- The more somber commentary, as well as a disappointing earnings release and forecast from technology bellwether Cisco Systems, led equity markets lower last week.
- The 10-year Treasury fell below its most recent strong support level of 2.79 percent. It's possible that it could hit its next support level, 2.55 percent, now that the Fed has begun to purchase 2-year and 10-year Treasuries.
- Small-cap stocks underperformed large-cap stocks once again, while international markets had the best relative performance despite a weak euro.
- Having briefly dropped below 0.50 percent, the 2-year Treasury stood at 0.53 percent early last Friday.
- Equity valuations continued to look compelling, and earnings estimates continued to increase. Something has to give in the coming months.
- Economic reports continued to paint an uncertain macroeconomic picture. In aggregate, we believe economic growth is showing signs of moderation.
- Once again, 30-year mortgage rates are at all-time lows.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500 Index	–2.10%	–0.40%	–1.60%	10.40%
Nasdaq Composite	–2.90%	–1.40%	–2.00%	12.90%
Dow Jones Industrial Average	–1.90%	–0.10%	0.20%	13.10%
MSCI EAFE	–1.10%	2.00%	–4.80%	4.90%
MSCI Emerging Markets	–0.90%	1.00%	1.20%	18.60%
Russell 2000	–3.30%	–3.30%	0.60%	11.90%

Market Index Performance Data (continued)

FIXED INCOME

Index	Month-to-Date (MTD) %	Year-to-Date (YTD) %	12-Month %
U.S. Aggregate	0.58%	7.07%	9.40%
U.S. Treasury	0.89%	7.53%	8.14%
U.S. Mortgage-Backed Securities	0.04%	5.40%	7.55%
Municipal Bond	0.92%	5.56%	9.70%
U.S. Treasury: U.S. TIPS	0.77%	5.37%	10.45%

What to Look Forward to

Monday's **Empire Manufacturing** report showed modest improvement, rising 7.1 points over last month. After showing sustained signs of a slowdown, growth in this area of the country is encouraging.

Capacity Utilization is expected to rise to 74.50 percent on Tuesday. While well above its June 2009 low, capacity utilization still has a long way to go before reaching its 2006 peak of 81. A higher number usually means better employment opportunities and inflation pressures, but this month's report is not likely to have a strong effect either way.

Consensus forecasts call for a 0.20-percent increase in the **Producer Price Index (PPI)** for July. PPI is generally worth noting only if it changes by a large amount (1.50 percent or more). An uptick in PPI after last month's negative number would be a good sign, however, because it would suggest neither serious inflation nor deflation.

Housing Starts are expected to have increased 2.10 percent in July. Unfortunately, **Building Permits** are expected to fall 0.50 percent for the same period. Housing is still weak, and these small changes aren't likely to indicate great transformation in the market.

Following Monday's manufacturing report, **Industrial Production** is expected to rise 0.60 percent, which would be a good sign for national output and a turnaround from last month's weak growth.

Analysts are timidly bullish on the **Leading Economic Indicators (LEI)** index, forecasting a 0.10-percent improvement. The LEI is a blend of forward-looking indices—including jobless claims, building permits, and manufacturers' new orders—which is often used by economists as a general predictor of gross domestic product growth. Hopefully a small improvement will mark the beginning of better news on this front.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Barclays Capital Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Barclays Capital Mortgage-Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Barclays Capital Municipal Bond Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. The Barclays Capital U.S. Treasury Inflation Protected Securities (TIPS) Index measures the performance of intermediate (1- to 10-year) U.S. TIPS. Rev. 8/10.

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