

## Economic Update

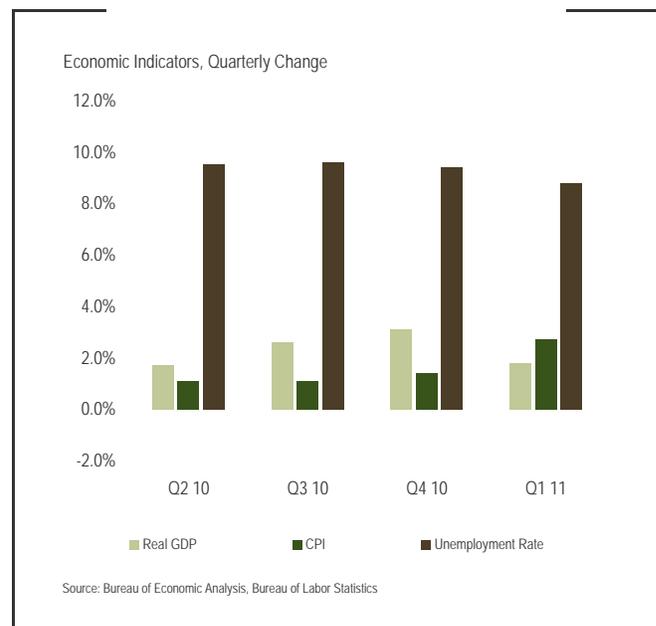
Debt-ceiling talks intensified this week in Washington as government representatives remained unable to reach an agreement to raise the limit of federal borrowing. If Congress cannot agree upon a solution that increases the debt limit, the U.S. would face an unprecedented credit rating downgrade that could send substantial ripples across the economy.

The U.S. Commerce Department announced on Tuesday that the trade deficit worsened severely in May due largely to spiking oil prices. The trade gap inflated from a revised \$43.6 billion in April to \$50.2 billion, falling far short of analyst consensus estimates that predicted the deficit to narrow. It is expected that the monetary consequences of the rapidly widening trade gap will lead many economists to lower their second quarter gross domestic product forecasts. Despite the downtrodden report, many experts expect the recent decline in oil prices and weakening of the U.S. dollar to produce improvements in the trade balance in the near future.

Minutes from the Federal Open Market Committee's meeting in late June were released on Tuesday, which revealed that a third round of quantitative easing was suggested by a small number of participants as a potential solution to the recent slowdown in the recovery. Others participating in the meeting argued against the idea, suggesting that it would have a marginal effect in approving the economy. Federal Reserve Chairman Ben Bernanke clarified in a speech on Thursday that additional quantitative easing measures have not been proposed or prepared at the present time.

Retail sales released on Thursday by the Commerce Department showed a slight improvement in June, rising 0.1% from the month prior to beat analyst expectations. The biggest contributors to the uptick were building materials & garden equipment, autos, and clothing & accessories, rising 1.3%, 0.8%, and 0.7%, respectively. Surprisingly, gasoline sales experienced a 1.3% decline in the month. The weak overall growth reflects sluggish consumer spending that has been marred by the embattled employment landscape and high gasoline prices.

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

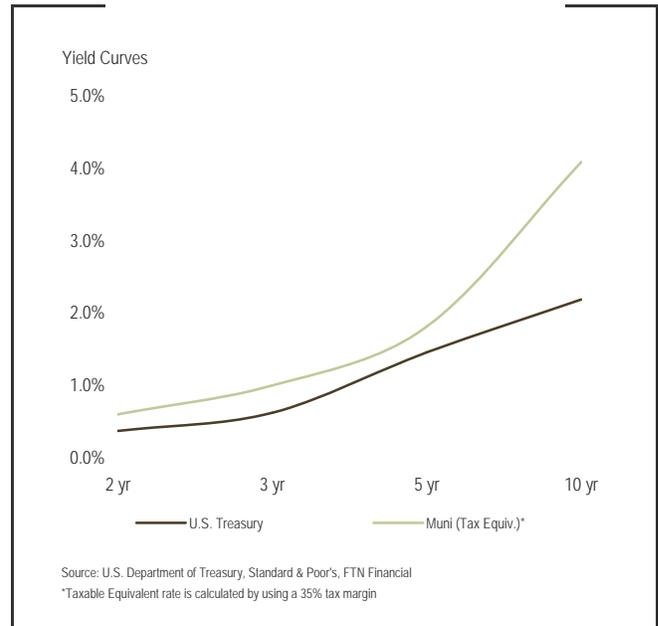


July 12 <sup>th</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.4%
July 12 <sup>th</sup>	International Trade Balance Level, May	-50.2B
July 13 <sup>th</sup>	MBA Purchase Applications Index, Wkly. Chg.	-2.6%
July 13 <sup>th</sup>	Import Prices, June Monthly Chg.	-0.5%
July 13 <sup>th</sup>	Export Prices, June Monthly Chg.	0.1%
July 13 <sup>th</sup>	EIA Petroleum Status Report, Wkly. Chg.	-3.1M Barrels
July 14 <sup>th</sup>	Producer Price Index, June Monthly Chg.	-0.4%
July 14 <sup>th</sup>	Retail Sales, June Monthly Chg.	0.1%
July 14 <sup>th</sup>	Initial Jobless Claims ( Week ending 7/9)	405,000
July 14 <sup>th</sup>	Business Inventories, June Monthly Chg.	1.0%
July 14 <sup>th</sup>	EIA Natural Gas Report, Wkly. Chg.	84 bcf
July 15 <sup>th</sup>	Consumer Price Index, June Monthly Chg.	-0.2%
July 15 <sup>th</sup>	Empire State Mfg Survey	-3.76
July 15 <sup>th</sup>	Industrial Production, June Monthly Chg.	0.2%
July 15 <sup>th</sup>	Consumer Sentiment Index, June	63.8

Bond Market Update

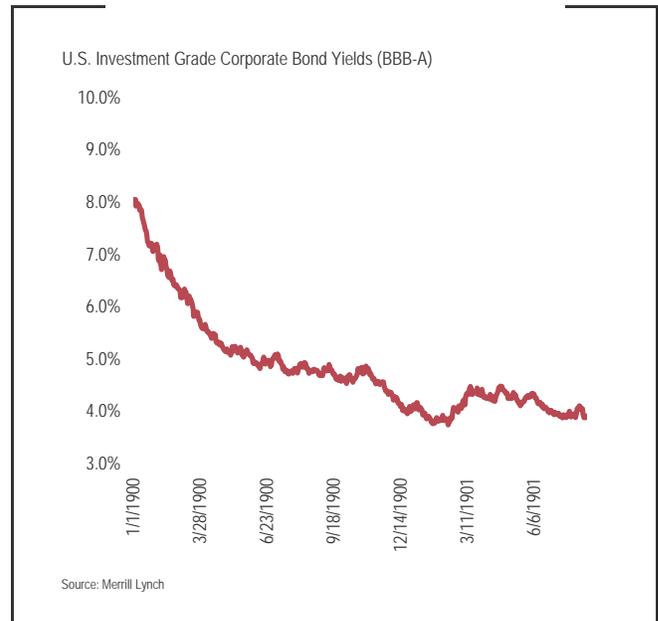
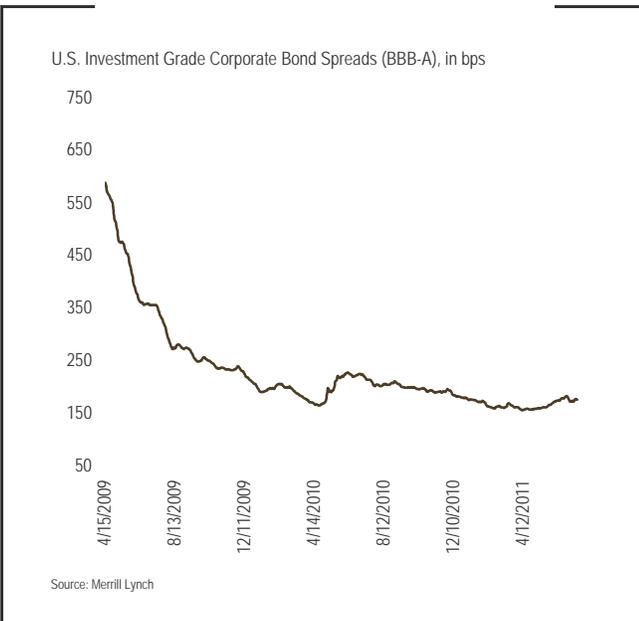
Although the rally in safe-haven U.S. securities faded on Friday, Treasuries finished higher for the week amid a drop in consumer sentiment and worries about the latest stress tests on eurozone banks. The European Bank Authority said eight of 90 European banks failed its capital stress test, with these eight needing to raise additional capital. Separately, spreads, or the difference in yields, on 10-year Treasury notes and similar maturity Treasury Inflation Protected Securities (TIPS), a gauge of traders' expectations for inflation over the life of the security, fell to 2.25% from this year's high of 2.67%.

Meanwhile, Standard & Poor's followed Moody's warning in June stating in a report that it may cut its AAA rating on U.S. government debt if officials fail to resolve the debt ceiling stalemate. "Owing to the dynamics of the political debate on the debt ceiling, there is at least a one-in-two likelihood that we could lower the long-term rating on the U.S. within the next 90 days," S&P said. After the report, credit-default swaps covering Treasuries, which provide protection in case the government is unable to meet its debt obligations, rose to a 17-month high.



Issue	7.8.11	7.15.11	Change
3 month T-Bill	0.03%	0.02%	-0.01%
2-Year Treasury	0.45%	0.37%	-0.08%
5-Year Treasury	1.76%	1.46%	-0.30%
10-Year Treasury	3.18%	2.94%	-0.24%
30-Year Treasury	4.38%	4.26%	-0.12%

Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.



Stock Market Update

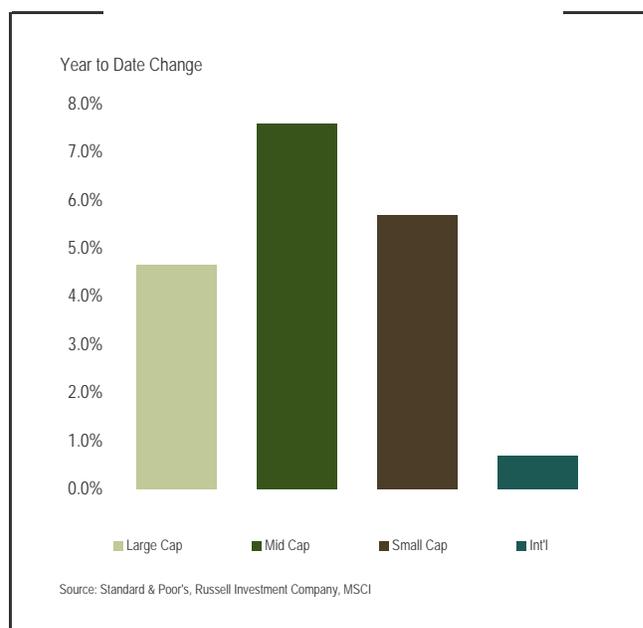
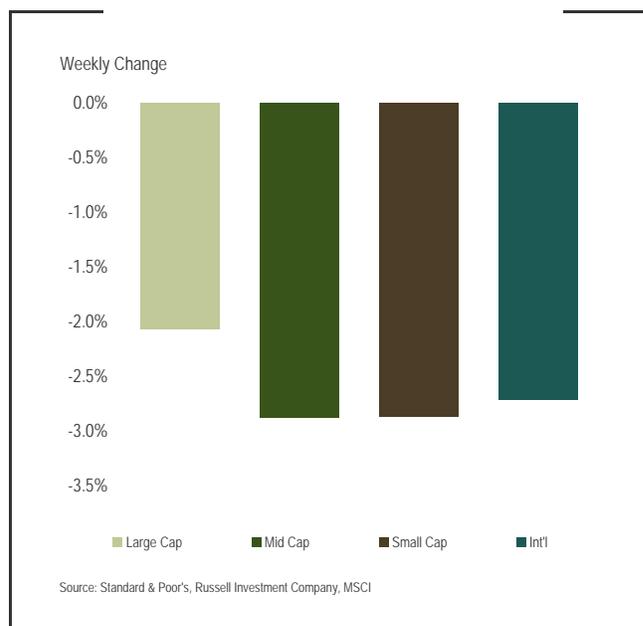
The stock market ended the first week of the earnings season on a volatile note and finished the week in negative territory. Frustration has set in over the recent discussions regarding the debt ceiling and the lack of clarity and plan of action to resolve the issue. The Dow Jones Industrial Average closed at 12,479.73, down 177 points for the week, or down 1.40%. The broader S&P 500 Index ended the week down by 2.06% to close at 1,316.14, while the NASDAQ Composite finished lower by 70 points, or down 2.45% to close the week out at 2,789.80.

The financial sector continues to underperform the broader benchmark year to date and ended the week down 3.95%. Both JP Morgan Chase (JPM) and CitiGroup (C) announced earnings this week. On Wednesday JPM reported a 13% increase in quarterly earnings and a rise in revenue that exceeded Wall Street expectations. Concerns remain over the exposure to Greece and other troubled European economies. CEO of JP Morgan Chase, Jamie Dimon, laid out a worst case scenario plan over the European concerns which would amount to a \$3 billion loss to the company. Although the results were positive, the stock finished the week down 1.87% ahead of the broader financial sector. Citigroup announced earnings on Friday morning before the bell and also beat the Wall Street analyst's estimates. The revenue came in higher than expected at \$20.6 billion, but concerns remain over the rise in expenses and the on going litigation expenses. The stock rose at the open, but quickly fell in negative territory for the day and finished the week down 8.68%.

Thursday after the close, Google (GOOG) reported quarterly earnings that also topped analyst estimates. Earnings per share rose 36% on strong demand from its core search business. Also topping expectations were the newer business segments, mainly Google+, which is seen as a small, but growing, competitor to Facebook. Shares of Google were up over 10% at the open on Friday and finished the week up 11.71%.

Issue	7.8.11	7.15.11	Change
Dow Jones	12,657.20	12,479.73	-1.40%
S&P 500	1,343.80	1,316.14	-2.06%
NASDAQ	2,859.81	2,789.80	-2.45%
Russell 1000 Growth	625.86	614.46	-1.82%
S&P MidCap 400	1004.98	976.11	-2.87%
Russell 2000	852.57	828.18	-2.86%
MSCI EAFE	1,707.35	1,661.14	-2.71%
MSCI Small Cap	1,167.61	1,135.42	-2.76%

Prices reflect most recent data available at the time of publication  
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch.



Alternative Investments Market Update

Hedge funds are seeing major inflows of cash this year despite underperforming for the first two quarters of 2011. In May and June hedge funds raised \$8.1 billion and \$5.6 billion, respectively, bringing the total for the first six months of the year to over \$80 billion, according to CBS MoneyWatch. However, the performance did not match the inflows. Year to date, as of July 13, the HFRX Global Hedge Fund Index was down 2.14% and the Equity Hedge Index was down 8.62%. Eight of ten of the Dow Jones Credit Suisse Hedge Fund Index sectors were in the red, bringing the June performance numbers for that index down 1.36%. Hedge funds continue to struggle as worldwide debt issues plague the international markets.

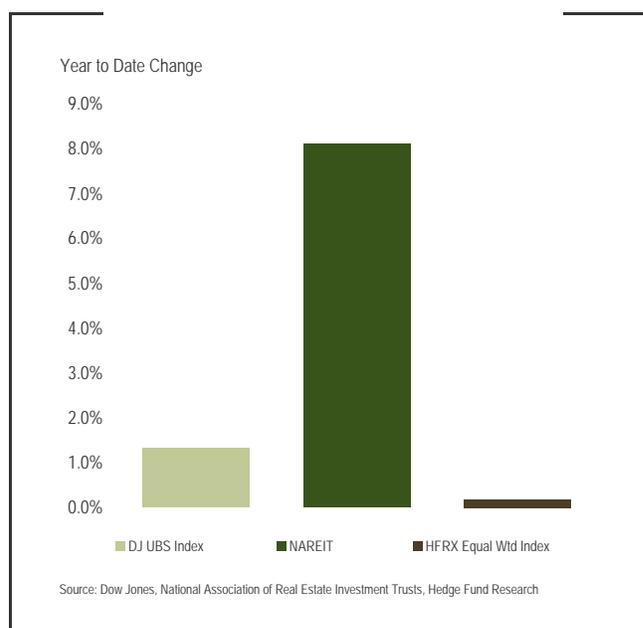
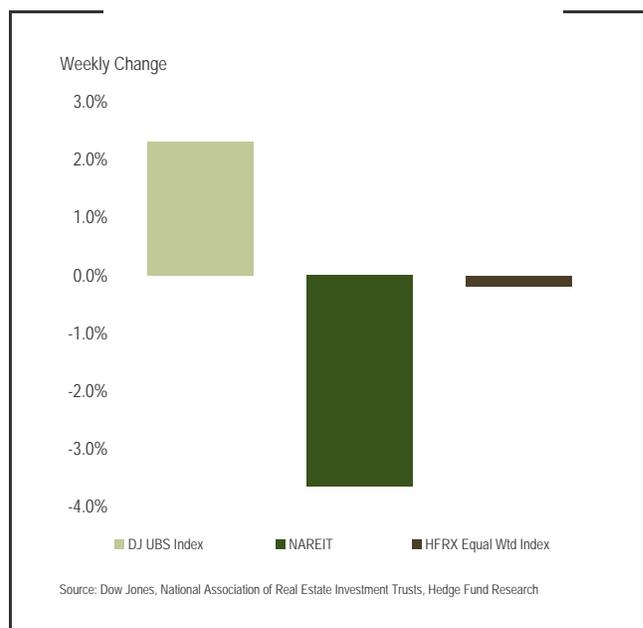
Gold prices continued their momentum while reaching a record high on Thursday of \$1,594.20 per ounce reacting to Moody's warning that the U.S. government credit rating is in risk of being downgraded. Gold recorded its longest run of gains since the fall of 2006 in posting its tenth straight daily rise closing on Friday, gaining 3.24% on the week. The inability to raise the U.S. debt ceiling poses a legitimate, growing risk that the world's largest economy could default. Investors have expressed their concern about the dollar, the U.S. debt ceiling, and the European debt crisis in choosing to aggressively increase their stakes in gold. However, analysts are maintaining their conservative recommendation on gold due to its high volatility during times of good and bad news.

In other alternative news, crude oil rose by more than 2% this week, gaining for the third week in a row. Analysts say oil is rising, along with precious metals, as investors seek safe havens from sub-par equity performance and government debt problems.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,544.10	1,594.20	3.24%
Crude Oil Futures	96.48	97.38	0.93%
Copper	440.05	441.85	0.41%
Sugar	29.36	28.97	-1.33%
HFRX Equal Wtd. Strat. Index	1,171.46	1,169.29	-0.19%
HFRX Equity Hedge Index	1,136.72	1,129.70	-0.62%
HFRX Equity Market Neutral	1,042.88	1,045.96	0.30%
HFRX Event Driven	1,400.65	1,390.31	-0.74%
HFRX Merger Arbitrage	1,545.03	1,539.59	-0.35%
Dow Jones UBS Commodity Index	160.83	164.54	2.31%
FTSE/NAREIT All REIT	150.79	145.29	-3.65%

<sup>1</sup> Prices reflect most recent data available at the time of publication

Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Bloomberg, The Wall Street Journal, The International Monetary Fund.



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