



THE WEEK IN REVIEW

The global stock rout intensified Friday on fresh worries about China's economy. Signs of a sharp slowdown in the world's second largest economy concerned investors after Beijing surprised markets last week by devaluing its currency. Shares in the U.S., Asia and Europe tumbled along with commodity prices as investors worried about waning Chinese demand. The DJIA dropped 358 points on Thursday in its biggest point plunge since November 9, 2011, and then another 531 points on Friday. After Friday's losses, the Dow was down more than 10.1% on a price basis from its May 19 record close of 18,312.39.

In a week of mostly dismal economic news amid the global stock sell off, the U.S. housing market provided a brief respite. Construction on new homes in July rose at the fastest pace since before the financial crisis began, with housing starts growing 0.2% in the month to a 1.21 million annual pace. This report beat economist expectations for a 1.19 million annual pace and is the highest level since October 2007. Existing U.S. home sales also hit a post-recession high, increasing 2% to a seasonally adjusted 5.59 million annual rate, the highest since February 2007. An improving economy, low interest rates, and lower unemployment are attracting new shoppers to the housing market. However, first-time buyers are still only a small part of the housing recovery, comprising just 28% of total July sales and a year-to-date low.

The consumer price index rose 0.1% in July, the lowest increase in the past three months. Core CPI, which excludes the more volatile food and energy prices, also rose 0.1% over the prior month, remaining at a steady 1.8% annualized rate, just under the Fed's 2% inflation target. Costs of housing, apparel, and energy all rose, while vehicles, airfare, and electricity fell. Given the recent plunge in oil prices, which is now near \$40 a barrel, energy prices are expected to sharply plunge for the August reading.

Conditions for a rate increase are "approaching" though not at hand, according to the minutes from the most recent Federal Reserve meeting. Policymakers at the U.S. central bank's Open Market Committee said at the July session that conditions hadn't been achieved yet for the first interest rate increase in nearly 10 years, due primarily to inflation that is not yet moving toward the necessary conditions. With regard to the labor market, the minutes indicated most members saw room for some additional progress in reducing labor market slack, although several viewed current labor market conditions as "at or very close to those consistent with maximum employment." Perhaps the biggest story that came from the meeting though was the minutes being leaked, marking the second time in the last month that there's been a leak of information from the Fed.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	16,459.75	-5.82%	-7.65%	-3.40%
NASDAQ	4,706.04	-6.78%	-0.63%	3.84%
S&P 500 LargeCap	1,970.89	-5.77%	-4.27%	-1.08%
S&P 400 MidCap	1,423.20	-5.23%	-2.01%	-0.27%
S&P 600 SmallCap	676.91	-4.24%	-1.26%	2.72%
MSCI EAFE	1,795.20	-2.48%	1.14%	-6.71%
MSCI Emerging Markets	830.28	-3.88%	-13.18%	-23.26%
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Barclays Aggregate US		0.47%	0.98%	2.49%
Bloomberg Non-US Govt Bond		-0.43%	-0.94%	1.02%
Bloomberg US Treasury Index		0.61%	1.64%	3.90%
Bloomberg High Yield Index		-0.53%	0.68%	-3.10%
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FTSE/NAREIT All REIT Index		-2.36%	-3.95%	-0.11%
Bloomberg Commodity Index		-2.82%	-15.84%	-30.03%
<b>KEY BOND RATES</b>		<b>WEEK</b>	<b>1 MO AGO</b>	<b>1 YR AGO</b>
3-Month T-Bill		0.03%	0.03%	0.02%
2-Year Treasury		0.64%	0.71%	0.49%
5-Year Treasury		1.44%	1.69%	1.64%
10-Year Treasury		2.05%	2.35%	2.41%
30-Year Treasury		2.74%	3.08%	3.19%
Municipal Bond Yields (10 Yr)		2.25%	2.36%	2.22%

Price return as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.

UPCOMING WEEK

The economic schedule next week is full of reports, including many that will signal the current state of the housing market. Tuesday: Case-Shiller 20-City Composite Home Price Index, New Home Sales and Consumer Confidence; Wednesday: Durable Goods Orders; Thursday: the "Preliminary" estimate of Q2 GDP and Pending Home Sales, and finally on Friday, the University of Michigan's Consumer Sentiment survey.

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