



THE WEEK IN REVIEW

On Monday and Tuesday stocks continued to decline and the CBOE Volatility Index spiked to levels last seen during the May 2010 flash crash. After six consecutive days of losses, stocks rebounded sharply the rest of the week and ended the week with a gain. Despite the market turmoil, 10-year Treasury yields have been resilient. After an initial flight to safety that pushed yields to 2% from 2.20% a week earlier, the trend reversed, sending yields higher. A series of positive economic reports this week helped bolster 10-year Treasury yields, generally a barometer of domestic and global growth.

Wednesday's revised Q2 GDP report showed growth improved to 3.7%, up from an originally estimated 2.3%. It was a welcome adjustment that was led by acceleration in exports, consumer spending, government spending, and nonresidential fixed investment. We also learned corporate profits remained strong but unit labor costs had risen; rising unit labor costs tend to adversely impact corporate profits in the absence of rising productivity. As reported by the Bureau of Economic Analysis in its personal income report, both compensation and wages have been rising on average 4-5% on a year-over-year basis in 2015. The Fed is watching these trends closely for signs of acceleration as it evaluates labor market slack and trends in core inflation.

This month's report on personal consumption expenditures disappointed. Those hoping for signs that core inflation is accelerating will have to wait another month. The year-over-year change in the Fed's preferred inflation gauge decelerated this month to 1.2%; consensus estimate was 1.3%. The rise in personal income and decline in personal consumption expenditures pushed the savings rate higher to 4.9%. Although consumers may not be spending more of their income, the savings rate remains near the lowest levels since the end of the recession.

New home sales rebounded in July from the seven-month low reached last month. July sales rose 5.4% to a seasonally adjusted annual rate of 507,000 units. Sales were 25.8% higher compared to a year ago. Low borrowing costs and a stronger job market have contributed to the improvement in housing this year, but low supply has constrained sales. At July's sales pace the supply of homes would last 5.2 months, down from 6.1 months a year ago. Building permits and housing starts have risen to multi-year highs in recent months which signals supply will likely increase in coming months.

Durable goods orders rose for the second straight month in July with a gain of 2%. Excluding the volatile transportation category, core orders rose 0.6% in July. Orders have not risen for consecutive months since last summer and have struggled the past year since the stronger dollar has made U.S. goods more expensive for foreign buyers and lower oil has led to reduced investment from energy companies.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	16,643.01	1.11%	-6.62%	-2.56%
NASDAQ	4,828.32	2.60%	1.95%	5.42%
S&P 500 LargeCap	1,988.87	0.91%	-3.40%	-0.72%
S&P 400 MidCap	1,426.23	0.21%	-1.80%	-0.28%
S&P 600 SmallCap	674.84	-0.94%	-2.91%	1.06%
MSCI EAFE	1,731.13	-1.45%	-2.47%	-9.97%
MSCI Emerging Markets	813.08	0.09%	-14.98%	-25.20%
Barclays Aggregate US		-0.50%	0.59%	1.71%
Bloomberg Non-US Govt Bond		-0.42%	-1.45%	-0.38%
Bloomberg US Treasury Index		-0.81%	1.01%	2.86%
Bloomberg High Yield Index		-1.77%	0.22%	-3.74%
FTSE/NAREIT All REIT Index		-2.96%	-6.67%	-2.33%
Bloomberg Commodity Index		1.77%	-14.35%	-29.26%
KEY BOND RATES		WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill		0.02%	0.05%	0.02%
2-Year Treasury		0.72%	0.69%	0.50%
5-Year Treasury		1.52%	1.61%	1.63%
10-Year Treasury		2.19%	2.26%	2.34%
30-Year Treasury		2.92%	2.96%	3.08%
Municipal Bond Yields (10 Yr)		2.22%	2.29%	2.17%

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

UPCOMING WEEK

Friday will be the most important day for data next week with the release of August's employment data. Economists are forecasting an increase in nonfarm payrolls to 220,000. The unemployment rate is forecasted to decline to 5.2% from 5.3%. Other economic data next week include the ISM Manufacturing Index, construction spending, and the ISM Non-Manufacturing Index.

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