

The Economy

The Blue Chip Economic Indicators survey in August revealed a 2012 U.S. Gross Domestic Product (GDP) forecast of 1.8%. Economists see GDP growth accelerating to 2.5% in 2013. But those are just forecasts. How about another interesting example of how the markets are recovering. U.S. asset-backed securities issuance is on pace to post its best showing since 2007, according to data provided by SIFMA. The most active markets have been auto loans (\$58.8 billion), credit cards (\$22.5 billion) and student loans (\$13.5 billion). The rebound in issuance is somewhat reflective (improved confidence levels) of the work that many consumers have done to get their fiscal houses in order.

Consumer Confidence 60.6 (Aug) 65.9 (Jul)	Crude Oil (Mo.-End) \$96.47 (Aug) \$88.06 (Jul)	Personal Spending 0.4% (Jul) June was 0.0%	ISM Manufacturing 49.6 (Aug) 49.8 (Jul)	ISM Non-Manufacturing 53.7 (Aug) 52.6 (Jul)
Gold (Mo.-End) \$1685.30 (Aug) \$1610.50 (Jul)	Natural Gas (Mo.-End) \$2.80 (Aug) \$3.21 (Jul)	Factory Orders 2.8% (Jul) June was -0.5%	New Home Sales 372,000 (Jul) 350,000 (Jun)	Existing Home Sales 4.47M (Jul) 4.37M (Jun)

The Stock Market

Indices (Source: Bloomberg)

	Aug	12-mo.
S&P 500	2.3%	18.0%
DJIA	1.0%	15.8%
NASDAQ 100	5.1%	25.1%
S&P 400	3.5%	12.7%
Russell 2000	3.3%	13.4%
Russell 3000	2.5%	17.0%
MSCI World (ex U.S.) (USD)	2.9%	-0.7%
MSCI Emerging Markets (USD)	-0.3%	-5.8%

Ninety-eight out of the 132 subsectors (74%) that comprise the S&P 500 posted a gain in August, up from 68 (52%) last month, according to S&P. Information Technology was the top performing sector, up 5.1%. In August, the dividend-payers (402) in the S&P 500 (equal weight) posted a total return of 2.57%, vs. 5.85% for the non-payers (98), according to Standard & Poor's. Year-to-date through August, the payers were up 10.37%, vs. a gain of 12.70% for the non-payers. For the 12-month period ended August, payers were up 14.70%, vs. a gain of 10.01% for the non-payers. The number of dividend increases y-t-d totaled 239, up from 226 a year ago. Six dividends were cut, up from four a year ago. Twelve companies initiated a dividend, down from 17 a year ago. S&P 500 companies reported that 46.1% of their sales came from outside the U.S. in 2011, down slightly from 46.3% in 2010, according to S&P Dow Jones Indices. Foreign sales reached a record-high of 47.9% in 2008. Sales to European countries declined from 13.5% of total foreign sales in 2010 to 11.1% in 2011. Canada accounted for 9.3% of all foreign sales, up from 4.1% in 2010. The sectors that reported foreign sales in excess of 50% were Technology (56.52% vs. 56.30% in '10), Materials (53.71% vs. 52.46% in '10) and Health Care (52.42% vs. 49.82% in '10).

Growth/Value (Source: Bloomberg)

	Aug	12-mo.
S&P 500 Growth	2.3%	18.6%
S&P 500 Value	2.2%	17.3%
S&P 400 Growth	4.1%	11.3%
S&P 400 Value	2.8%	14.7%
Russell 2000 Growth	3.6%	12.7%
Russell 2000 Value	3.1%	14.1%

U.S. Dollar Index (DXY) -1.7% (Aug) +1.3% (YTD) \$ was up 1.5% in '11	CBOE Total Equity Options (# of contracts in millions) Aug: 41.5 (+4.8%) Jul: 39.6 (+9.1%) Record 7/08: 67.2 million	Short Interest (NYSE) Aug 15: 13.8B (-1.4%) Jul 13: 14.0B (-4.8%) Record 7/08: 18.61 billion shares	VIX Volatility Index (S&P 500) 17.47 (8/31) 18.93 (7/31) Record 11/20/08: 80.86
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The Bond Market

Index (Source: Barclays)

	Aug	12-mo.	Yield
U.S. Treasury: Intermediate	0.03%	2.78%	0.53%
GNMA 30 Year	0.02%	4.13%	2.18%
Municipal Bond (22+)	0.23%	14.52%	3.49%
U.S. Aggregate	0.07%	5.78%	1.74%
Intermediate Corporate	0.50%	7.42%	2.27%
U.S. Corporate High Yield	1.17%	13.89%	6.74%
Global Aggregate	0.86%	1.40%	1.79%
Global Emerging Markets	1.52%	10.57%	4.74%

The yield on the benchmark 10-Year T-Note increased by 8 bps. to 1.55% in August. With no major bad news flowing out of Europe, it was risk-on as high yield corporates and emerging market debt outshined the rest. In August, the new issuance volume of high yield corporate bonds was approximately \$30 billion (51 issuers), according to *Forbes*. Volume through the first eight months of this year surpassed \$200 billion. That puts 2012 on a pace to challenge the \$264 billion (record-high) issued in 2010. Companies are exploiting this record-low interest rate climate in order to refinance their balance sheets. The U.S. speculative-grade default rate stood at 3.3% in July, but is expected to fall back to 2.9% by July 2013, well below its 4.8% average since 1983, according to Moody's.

Key Rates as of August 31

Fed Funds	0-0.25%
2-Yr. T-Note	0.22%
10-Yr. T-Bond	1.55%
30-Yr. Mortgage	3.55%
Bond Buyer 40	4.21%

(Source: Bloomberg)

Key Yield Spread

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 580 basis points on 8/31/12, down from 606 on 7/31/12. It was 642 on 8/31/11.

(Source: Bloomberg)

2012 Debt Issuance Through July

(Source: Thomson Reuters)

Debt Category	\$ Amount	% change over '11
Treasury	\$1.42 Trillion	+19.6%
Corporate	\$739.1 Billion	+5.3%
Convertible	\$10.1 Billion	-42.2%
Asset-Backed	\$120.7 Billion	+61.7%
Municipal	\$219.4 Billion	+61.0%

Equity funds reported net cash *outflows* totaling \$10.3 billion in 7/12, vs. \$6.2 billion of *outflows* in 6/12, according to the Investment Company Institute. Bond funds reported net *inflows* totaling \$24.6 billion, vs. \$16.3 billion of net *inflows* in 6/12. Money Market fund net *inflows* totaled \$34.7 billion, vs. \$46.4 billion of net *outflows* in 6/12. Y-T-D through July, equity funds reported net *outflows* totaling \$40.4 billion, vs. \$177.5 billion of net *inflows* for bond funds (municipals had net *inflows* totaling \$33.3B) and \$143.7 billion of net *outflows* for MMFs.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	1565.15	10/09/07	676.53	03/09/09	1406.58	-10.13%	13.51%	2.09%
S&P 500 Growth	771.78	08/17/12	363.99	03/09/09	766.25	-0.72%	14.55%	1.82%
S&P 500 Value	836.19	07/13/07	307.16	03/09/09	632.77	-24.33%	12.26%	2.43%
S&P 400	1015.26	04/29/11	372.88	10/09/02	971.55	-4.31%	11.61%	1.64%
S&P 400 Growth	465.69	07/07/11	162.27	10/09/02	445.24	-4.39%	12.33%	1.12%
S&P 400 Value	361.18	06/04/07	135.55	10/09/02	333.07	-7.78%	11.22%	2.19%
S&P 100	729.79	10/09/07	322.13	03/09/09	646.41	-11.43%	15.09%	2.20%
DJIA	14164.53	10/09/07	6547.05	03/09/09	13090.84	-7.58%	9.19%	2.61%
NASDAQ 100	2784.42	04/02/12	804.64	10/07/02	2772.24	-0.44%	22.66%	1.12%
Russell 2000	865.29	04/29/11	327.04	10/09/02	812.09	-6.15%	10.60%	1.59%
Russell 2000 Growth	497.75	04/29/11	169.69	10/09/02	468.41	-5.89%	10.76%	0.87%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	1067.35	-16.39%	10.43%	2.29%
Russell 3000	907.58	10/09/07	389.61	03/09/09	828.86	-8.67%	13.15%	2.02%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	3904.16	-27.43%	6.66%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	79.55	10/10/02	376.49	-20.46%	5.61%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2160.80	10/16/02	28017.99	-37.23%	-7.43%	4.26%
RTS/Russia (USD)	2487.92	05/19/08	324.46	09/19/02	1389.72	-44.14%	4.64%	3.64%
Bombay SE 500/India (USD)	226.04	01/07/08	21.10	10/28/02	120.17	-46.84%	11.16%	1.60%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	322.52	-60.20%	-5.57%	2.81%
KOSPI/South Korea (USD)	2.29	10/31/07	0.41	03/17/03	1.68	-26.75%	5.94%	1.29%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	2512.06	-38.46%	8.97%	3.70%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	967.70	-51.34%	7.87%	4.05%
S&P Consumer Discretionary	364.84	05/02/12	125.72	03/09/09	359.12	-1.57%	17.62%	1.60%
S&P Consumer Staples	370.26	08/17/12	182.72	03/10/03	365.92	-1.17%	11.05%	2.79%
S&P Energy	668.81	05/20/08	168.29	01/27/03	533.54	-20.23%	4.06%	2.11%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	183.27	-18.15%	3.06%	4.02%
S&P Financials	509.55	02/20/07	81.74	03/06/09	203.39	-60.08%	17.58%	1.87%
S&P Banks	414.38	02/20/07	49.02	03/05/09	158.89	-61.66%	23.85%	2.17%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	511.99	-24.32%	17.54%	3.23%
S&P Health Care	449.99	07/27/12	252.84	03/05/09	448.23	-0.39%	13.31%	2.15%
S&P Pharmaceuticals	373.66	07/27/12	214.50	03/03/09	365.15	-2.28%	10.87%	3.29%
NYSE Arca Biotechnology	1529.65	07/18/12	307.08	10/09/02	1464.17	-4.28%	34.25%	0.09%
S&P Information Technology	502.11	04/02/12	172.88	10/09/02	488.78	-2.65%	20.30%	1.16%
Philadelphia Semiconductor	560.65	01/12/04	171.32	11/20/08	396.18	-29.34%	9.98%	1.55%
S&P Telecom Services	181.06	05/31/07	79.00	09/30/02	151.30	-16.44%	21.01%	4.64%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	314.50	-17.49%	9.33%	2.42%
S&P Materials	285.91	05/16/08	102.55	10/09/02	224.90	-21.34%	7.84%	2.29%
Philadelphia Gold & Silver	228.95	04/08/11	59.89	10/21/02	169.88	-25.80%	-4.78%	1.44%
Reuters/Jefferies CRB	473.52	07/02/08	200.34	03/02/09	309.59	-34.62%	1.41%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	184.47	-6.76%	15.72%	6.44%
Merrill Lynch High Yield Master II	300.90	08/31/12	106.67	10/10/02	300.90	0.00%	10.41%	7.35%