Instant Insights

July 2014

Geopolitical concerns reemerged in July as fighting escalated in the Middle East and the US and EU issued economic sanctions on Russia after the crash of the Malaysia Airlines jet in Ukraine. US equities closed the month lower and short-end interest rates began to increase as investors increasingly focused on the first rate-hike cycle. A better-than-expected second quarter GDP report was offset by a weak July jobs number and we enter August with mixed market sentiment.

ECONOMIC REVIEW The labor department released non-farm payrolls August 1st which indicated that the economy added 209,000 jobs in July versus expectations of 230,000. Second quarter GDP showed the economy grew at a 4% annualized pace boosted by consumer and business spending. Housing prices lagged consensus estimates with the first month-over-month decline (-0.3%) in May since January of 2012.

OUR VIEW **Economic growth will likely be sustained at current levels. If slack in the labor market falls, wage growth could prompt moderate inflation. While volatility remains low relative to historic levels, geopolitical tensions could lead to increased risk aversion.**

U.S. RATES OVERVIEW While a continued bid from risk-averse investors kept intermediate and long Treasury rates low, short-end rates increased meaningfully in July. The yield curve flattened with the difference between 2-year and 10-year yields falling 4bps month-over-month. Fed Chair Janet Yellen indicated that bond buying related to QE3 would end in October which shifted investor focus to the hiking cycle.

OUR VIEW **Low for long seems to be the prevailing mindset of investors; however, continued strong economic data has market participants more actively discussing how the Federal Reserve will effectively raise interest rates.**

SECTOR HIGHLIGHTS Investment grade and high yield credit spreads were flat and 51 bps wider, respectively. Decreasing fund flows drove some of the weakness in both sectors. The securitized sectors generally trailed Treasuries with lower-rated CMBS outpacing other sectors.

WHAT'S AHEAD Investors will focus on labor market indicators that the Federal Reserve is tracking including the labor market participation rate and long-term unemployed. The impact of economic sanctions on Russia and developments in the Ukraine will drive geopolitical sentiment.

40|86 ADVISORS FAVORED SECTORS
- Commercial Real Estate Loans
- AAA-rated CLOs
- Municipals
- Esoteric ABS
- Private Placements

Treasury Yield Curve (%)	7/31/2014	Δ MTD	Δ YTD
2Yr	0.53	0.07	0.15
5Yr	1.75	0.12	0.01
10Yr	2.56	0.03	-0.47
30Yr	3.32	-0.04	-0.65
2s10s	2.03	-0.04	-0.62
10s30s	0.76	-0.07	-0.18

CD Rates (bps)	7/31/2014	Δ MTD	Δ YTD
1Mo	0.10	0.01	0.01
3Mo	0.25	0.05	0.08
1Yr	0.47	-0.09	-0.02

Financing Rates (%)	7/31/2014	Δ MTD	Δ YTD
Fed Funds Target	0-0.25	-	-
Repo Rate	0.14	0.01	0.12
LIBOR	0.24	0.01	-0.01
30 Year Mortgage Rate	4.20	0.05	-0.34

Credit Spreads (bps)	7/31/2014	Δ MTD	Δ YTD
Corporate	99	-1	-15
AA	57	-1	-7
A	83	-1	-8
BBB	126	0	-24
BB	277	35	7
MBS	35	5	4

		Return		
Index Performance (%)	Level	MTD	QTD	YTD
Equity				
S&P500	1,931	-1.38	-1.38	5.94
DJIA	16,563	-1.44	-1.44	0.96
MSCI EAFE	1,933	-1.91	-1.91	3.24
VIX (Change)	17	5.38	5.38	3.28

Index Performance (%)	MTD	QTD	YTD
Fixed Income			
US Aggregate	-0.25	-0.25	3.66
IG Corporate	-0.06	-0.06	5.62
HY Corporate	-1.33	-1.33	4.05
Taxable Municipal	0.25	0.25	12.92
Tax-Exempt Municipal	0.18	0.18	6.18

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