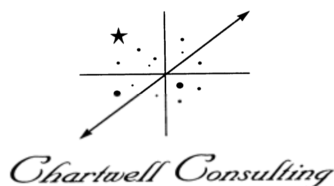

CHARTWELL REVIEW

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~~Sep~~*taper* ➲ *Rocktober?*

"Money, money, money. It's a rich man's game!"

Or, at least it's a **liquid** rich man's game. If you've ever wondered about the relative importance of monetary versus fiscal policy, in terms of having an impact on investor markets, you can stop. The Fed talks, and people listen. The Congress talks, ... and, so what's the big deal?

At least, it seems that way. Fed governors spent the summer walking back Chairman Bernanke's May/June remarks, culminating in his September announcement that the Fed's quantitative easing program wouldn't be changed. The U.S. Congress and White House spent the quarter not deciding on a new Federal spending budget, not inking a continuing resolution to fund a fully functioning Federal government, and not enabling a higher debt limit so that existing bills and outstanding bonds could be paid as they came due. Despite all these fiscal uncertainties, the result is observable in Figure 1. Most markets didn't just climb a wall of worry during the quarter; they scampered up it!

We passed something of a milestone late in the quarter, although its one we'd rather forget. Lehman Brothers filed for bankruptcy five years ago (on September 15th), beginning a financial winter lasting a very cruel six months. Yet today, if you look at the 5-year trailing returns, it's nearly impossible to see the footprints of what many consider the second worst financial and economic period for the US of the past century. Even after inflation, most investments have been quite profitable over the period, especially US equities.

If we might interrupt the fist bumps among investment committee members for just a second -- it's hard to see how the next five years will match this. Given current yields, bonds might, despite the hatred dumped on them during the past six months. But stocks? If profits only grow by 5-7% a year, should we pay almost 20 times earnings for them?

Figure 1: Index Benchmarks

Market Index	Trailing Returns *				
	3Q 13	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**
S&P 500	5.2	19.3	16.3	10.0	7.6
U.S. Top-cap Stocks	5.3	18.0	16.2	9.6	6.9
U.S. Mid-cap Stocks	7.7	27.9	17.5	13.0	10.8
U.S. Small-cap Stocks	10.2	30.1	18.3	11.2	9.6
Non-US Stocks (**devel**)	11.6	24.3	9.0	6.9	8.5
Non-US Stocks (**emerg**)	5.9	1.3	(0.0)	7.6	13.2
3 mo. T-Bills	0.0	0.1	0.1	0.2	1.7
U.S. Aggregate Bonds	0.6	(1.7)	2.9	5.4	4.6
High Yield Bonds	2.3	7.1	8.9	13.4	8.7
Global Bonds, unhedged	2.9	(4.6)	1.0	4.3	4.8
CPI, annualized	0.4	1.5	2.3	1.3	2.4
DJ-UBS Commodities	2.1	(14.4)	(3.2)	(5.3)	2.1
S&P Global REIT's	0.1	7.8	11.7	6.7	9.1
Chartwell Global 65/35	*5.2*	*10.9*	*9.1*	*8.8*	*8.3*

Figure 2: Average Mutual Fund Returns

Fund Category	Trailing Returns *				
	3Q 13	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**
U.S. Large-cap	6.8	21.1	15.4	10.1	7.7
U.S. Mid-cap	8.7	27.5	16.4	12.1	9.8
U.S. Small-cap	10.4	30.6	18.4	12.6	10.1
International Lg. Cap	10.5	21.2	7.9	6.5	8.5
International Sm. Cap	11.8	27.3	11.8	12.7	11.4
Emerg. Mkt. Equity	5.0	3.1	(0.6)	5.8	12.8
Balanced/Hybrid	4.2	10.2	8.9	7.9	6.6
General Bond	0.7	(1.5)	3.6	6.5	4.8
High Yield Bond	2.2	6.9	8.2	11.2	7.7
Hedge Fund Index	3.4	10.4	5.1	6.8	7.0

* Annualized trailing returns for periods ending 9/30/13.

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Economies, Economics, Prices, and Policy

Ben Bernanke and the Federal Reserve were once again the lead global economic story this quarter. After signaling a near-term reduction in asset purchases under QE3 and a plan to terminate QE3 by June 2014, Bernanke and his colleagues had a change of heart.

If one believes that the commencement of QE3 was prompted by Bernanke's concern over the fiscal cliff last year, then it's easier to understand his current logic. He does not seem to trust our elected officials' ability to carry out their responsibility of fiscal stewardship. Bernanke has noted on numerous occasions over the past couple of years how monetary policy alone cannot solve the nation's economic woes. He must not have been too confident about the prospects for easily getting past the current debt ceiling debate and continuing resolution to fund the federal government. His foresight is truly remarkable.

Not only did the last minute deal ending the partial shutdown of the U.S. government fail to fix any big problems, it also positions the economy for another serious setback. Just as America's economy seems to be recovering, with the prospect of GDP growing by 2.7% in 2014, it could face another shutdown of the same kind that has just sent consumer confidence to a nine-month low and knocked back estimated growth in the fourth quarter by 0.6 percentage points.

To be fair, fiscal policymakers remain between a rock and a hard place. Reduce the budget deficit to more modest proportions, and a recession would loom large. The patient would go through serious withdrawal. Yet, each time we kick the tax/spend can down the road increases our future debt burden. Unfortunately, *"that which is unsustainable shall not be sustained."*

History will be the ultimate judge, but thus far we believe QE3's favorable impact on the "physical" economy has been marginal. Per Figure 3, domestic economic growth has been modest, and the once optimistic opinions of accelerating second half growth have completely faded. During the 3rd quarter, the Fed and the IMF, both known for wearing rose-colored glasses when it comes to this stuff, each reduced their estimates for 2H13 and 2014 economic growth.

However, QE3's impact on the "financial" economy has been undeniable. Treasury yields, compressed by the magnitude of the Fed's asset purchases, reached nearly 1.5% in April, before "tapering" became a possibility. These levels seemed more indicative of a looming recession than the slow growth our economy is experiencing. Even after the bond vigilantes had their way with rates during the past 5 months, real yields remain well-below long-term averages. Therefore, developed market equity price appreciation has been especially robust, in this fifth year of a bull market for stocks.

China's economic growth accelerated in the third quarter, putting to rest for now fears that the world's No. 2 economy was headed for a sharp slowdown that would rattle world markets. China's gross domestic product grew 7.8% from a year earlier during the 3rd quarter. That compares with 7.7% in the first quarter and 7.5% in the second. Scrutiny will now fall on coming quarters to see whether China's economy – which is currently the major global growth engine, can sustain a faster pace.

Fairly quietly, the Euro area's current GDP growth rate was reported at +1.1% in the quarter, up from (0.8)%.

Figure 3: Breaking Down Real U.S. GDP

% Change from Preceding Period
(seasonally adjusted at annualized rates)

Factor	**2Q '13**	**1Q '13**	**4Q '12**	**3Q '12**
Real GDP Growth	**2.5**	**1.1**	**0.1**	**2.8**
Nominal GDP Growth	**3.1**	**2.8**	**1.6**	**4.9**
Final Sales	**2.1**	**0.2**	**2.2**	**2.2**
Personal Spending	1.8	2.3	1.7	1.7
Private Investment	9.2	4.7	(2.4)	6.5
- Fixed, Businesses	*4.7*	*(4.6)*	*9.8*	*0.3*
- Fixed, Residential	*14.2*	*12.5*	*19.8*	*14.1*
*- Chg. In Inventories (**$bn**)*	*$57*	*$42*	*$7*	*$77*
Export growth	8.0	(1.3)	1.1	0.4
Import growth	6.9	0.6	(3.1)	0.5
Government Spending	(0.4)	(4.2)	(6.5)	3.5

Second quarter US GDP grew at a 2.5% annual rate, nicely improved from the very weak prior two quarters. However, the cumulative one-year growth rate was only 1.6%. Even more disappointingly, forecasts for **third quarter GDP** growth have dropped into the 2% range, and the 17-day government "shutdown" will assuredly knock back 4th quarter activity. The Fed's forecast of 2.0-2.3% GDP growth for 2013 looks high.

US employment continued to increase, but at a declining rate, during the quarter. Non-farm payrolls increased by 430k, compared to 547k during the second quarter. Based on the household survey, employment rose just 245k, versus 772k the prior period. The underemployment+unemployment rate ("U6" rate) dropped from 14.3% to 13.6%, primarily because the labor force declined by 276k.

Price indices (inflation) once again remained well below the Fed's low-end 2.0% target, suggesting no upcoming pressure on money supply. CPI increased just 0.4% during the quarter, and 1.5% during the past twelve months. Core producer prices (finished goods) were up 1.1% in the quarter, but only 1.4% year-over-year. Crude materials prices are 1.6% higher year-over-year, as food and energy costs have fallen.

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Bond Prices Stabilize

Bond prices rallied late in the 3rd quarter, leading to positive quarterly returns in all areas except U.S. long-term investment grade (especially Treasuries). Yet, the sector is a long way from a recovery, as the still very red trailing 1-year column in Figure 4 attests.

July saw credit bonds post strong returns, as corporate sector spreads narrowed considerably amid Treasury bond weakness. August brought continued weakness in Treasuries. The 10-year's yield zoomed to almost 3.0%, before settling back at 2.75%. Credit bonds, including corporates, couldn't stand against that tide, and a sea of red spread across the bond tables.

The market was facing prospects of possible September tapering of the Fed's QE3, a government shutdown at the end of the quarter, and the US Treasury not being able to pay its bills due to breaching the debt ceiling. Then, the Fed surprised most strategists, economists, and investors with its decision to *not* begin reducing their $85 billion in monthly asset purchases, and bond prices took off to end the quarter. The 10-year rallied to a yield of 2.62% at quarter's end, and credit bonds followed suit.

Within high-grade bonds, credit spreads tightened to 135 bps by quarter's end, from 144 bps off Treasuries three months earlier. Financial sector bonds tightened to 139 bps, from 155 bps, leading to the best investment grade sector returns, at 1.5%. Industrials returned 0.54%, as spreads came in to 142 bps. The small utilities bond sector lagged.

The very large agency MBS sector underperformed Treasuries for much of the quarter amid fears of the yield curve's steepening, but rallied off of the Fed's announcement to delay and had a strong month of September, with an excess return of 63 bps. Total quarterly return was 1.1%. Commercial mortgage-backed securities also enjoyed a good quarter (+1.1%), and are in plus territory for the year.

The US High Yield sector continued its move from strength to strength, with a 2.3% quarterly return. The sector has returned an exceptional 7.1% during the past year. During this time, the sector's yield spread versus Treasuries has dropped from 613 bps to only 497 bps.

The oft-cited reasons behind the bond sell-off earlier in the year have clearly been delayed. Yet, as Figure 5 shows, term yields are up 75-95 bps this year, except for domestic high yield securities. With inflation down to the 1.5% level, real interest rates have jumped nearly 125 bps this year.

The Bankrate.com 30-year rate for new mortgages has risen from a trailing 12 month low of 3.36% last December, all the way to 4.67% in early September. In reaction, major banks announced thousands of layoffs in their mortgage units during the third quarter.

Figure 4: Primary Bond Sector Returns (%)

Index	3Q '13	1 Year	3 Years
US Aggregate Bond index	0.6	(1.7)	2.9
US Gov't: 1-3 Yrs.	0.3	0.4	0.8
US Treasury: Long	(2.2)	(10.6)	3.6
US Inflation-Linked	0.7	(6.1)	4.0
Mortgage-Backed	1.1	(1.2)	2.7
CMBS	1.1	0.9	5.7
Asset-Backed	0.2	(0.4)	2.2
Inv. Grade Credit, 1-10yr	1.1	0.1	3.9
Inv. Grade Credit, 10+yr	(0.1)	(7.1)	5.3
US High Yield Credit	2.3	7.1	8.9
Municipal Bonds	2.2	(2.2)	3.2
Global Aggregate, ($ hdgd)	0.8	0.5	3.0
Global Aggregate Credit	1.0	0.4	4.1
Emerg. Mkts Bonds (US$)	0.5	(5.9)	4.7

Figure 5: Primary Bond Yields

US Treasuries	Sep-13 (%)	Jun-13 (%)	Dec-12 (%)	Sep-12 (%)	*Y-T-D Change (%)*
3-month	0.01	0.05	0.06	0.08	***(0.05)***
2-year	0.33	0.36	0.25	0.24	***0.08***
5-year	1.39	1.39	0.72	0.63	***0.67***
10-year	2.62	2.50	1.75	1.64	***0.87***
30-year	3.69	3.50	2.93	2.83	***0.76***
BarCap Aggregate	2.34	2.36	1.74	1.61	***0.60***
BBB Credit	3.93	3.94	3.22	3.33	***0.71***
AA Credit	2.18	2.22	1.66	1.63	***0.52***
Agency MBS	3.07	3.12	2.22	1.77	***0.85***
Emerging Mkts ($)	5.43	5.31	4.50	4.75	***0.93***
US High Yield	6.36	6.66	6.01	6.76	***0.35***
UST30y-UST2yr	3.36	3.14	2.68	2.59	***0.46***

Figure 6: Sovereign Bond Yields, selected countries

10 yr. bond yields	Sept-13 %	June-13 %	Dec-12 (%)	Sept-12 (%)	*Y-T-D Change*
United States	2.62	2.50	1.75	1.64	***0.87***
Germany	1.82	1.67	1.43	1.44	***0.39***
Switzerland	1.14	1.04	0.55	0.59	***0.59***
Britain	2.86	2.66	1.87	1.69	***0.99***
Poland	4.38	4.11	3.91	4.71	***0.47***
Italy	4.38	4.52	4.45	5.11	***(0.07)***
Spain	4.26	4.55	5.41	5.73	***(1.15)***
Greece (new bonds)	10.05	11.78	12.77	19.17	***(2.72)***
China (5 year)	3.88	3.27	3.26	3.20	***0.62***
Australia	3.85	3.74	3.38	2.84	***0.47***
South Korea	3.41	3.47	3.19	2.97	***0.22***

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Domestic Equities Rise Again

The domestic stock market (S&P 500) started the quarter off very strongly, rising 8.7% by August 2nd. August wasn't so kind, as the spike in bond yields continued and 2nd quarter reported corporate profits rose a very modest 4% y/y. The market fell 4.5%.

September was a better month, with the index rising to a then-record high of 1725 on 9/18 (+5.67%), before profit-taking took it down to 1690 at quarter's end. The quarter's full tally was a robust rise of 5.2%, extending the gains of the first half and boosting the year-to-date total return for the S&P 500 to 19.8%. That's the best 9-month increase to start a year since 1997.

Despite its continuing strength-on-strength, the broad U.S. equity market was not this quarter's clear winner, as sharp gains in Europe led to better performance in both developed and emerging non-US stock markets.

The size effect (*smaller-cap beats larger-cap*) was strongly observable across the style spectrum (Fig. 7). The impact of this factor has been quite dramatic recently, to the point that small-cap stocks have outperformed large by 7% over the past year. A similar conclusion can also be reached for the extended 3- and 5-year periods, *with respect to growth stocks*. Small-value has also outperformed large value, but not so sharply or consistently. Up to a point, we'd expect to observe higher beta small-cap stocks outperform during a strong bull market, and we have.

Large-growth stocks outperformed large-value by over 4% in the quarter. This was contra the trend we saw developing during the prior year. Mid-cap and small-cap growth followed suit in the quarter. Over the course of this bull market, growth indices have bested value. Financials, certainly the worst performing sector cumulatively over the past 5 years, are most heavily represented in the value indices (30-40% weighting). Conversely, the top-performing consumer sectors are more heavily weighted in the growth indices.

We see from Figure 8 that broad sector returns ranged widely during the third quarter. High beta, procyclical sectors, like materials, industrials, and consumer discretionary, each returned 8-10%. The defensive telecom, utilities, and consumer staples groups barely broke even (if that). Financial services stocks also underperformed.

As the equity markets plow through another mid/high teens return year, a considerable amount of concern is building with respect to fundamental stock valuations. Many see them as historically stretched, especially in relation to actual earnings growth. Per Figure 9, the large-cap sector is trading at 17 times trailing earnings, and small-caps at 21x. These two figures were just 12.5x and 14.9x, respectively, two years ago. Since then, the S&P index is up 55%, and its PE ratio has increased by 37%. To us, the difference between small stock and EM stock P/E's is striking.

High earnings stability stocks (high S&P Quality Rating) sharply underperformed low stability ones during the quarter. Investors have quite consistently favored low quality, high beta/volatility stocks lately, whether these are large- or mid-caps, growth or value. Virtually all sectors reflected that bias this quarter.

Figure 7: U.S. Equity Market - Size/Style Returns

		Trailing		
	3Q '13	1-yr	3-yrs	5-yrs
Growth				
Large Cap	7.5	16.1	16.7	11.4
Mid Cap	9.3	27.5	17.7	13.9
Small Cap	12.8	33.1	20.0	13.2
Value				
Large Cap	3.1	20.0	15.8	7.6
Mid Cap	5.9	27.8	17.3	11.9
Small Cap	7.6	27.0	16.6	9.1

Figure 8: US Sector Returns – 3rd Quarter 2013

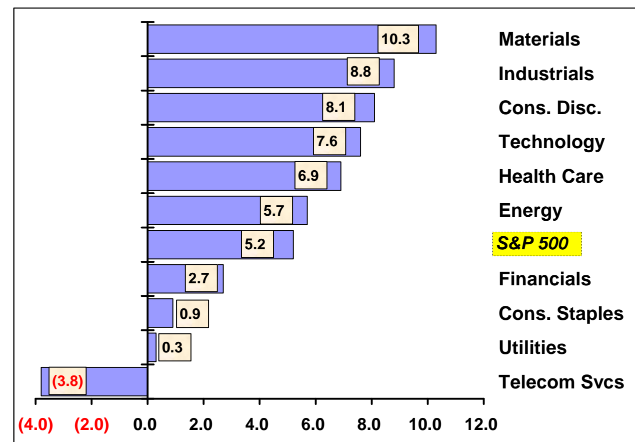

Figure 9: P/E Ratios by Style and Size – 9/30/13

	Value	Blend	Growth
US Large	15.6x	17.1x	18.7x
US Mid	17.7x	20.6x	23.8x
US Small	17.6x	21.0x	25.6x
EAFE		15.3x	
Emerg. Mkts		12.0x	

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International Markets – Signs of Life

As the third quarter began, international equity markets faced the same wall of worry as did the domestic, ***plus*** heightened concerns about slowing growth in China, the outcome of the German elections, and a continuation of Europe's very fragile recovery. As they unfolded, outcomes proved less bad than feared and investor sentiment took a highly positive turn.

The Eurozone broke a six-quarter recession with a 1.2% gain in Q2 GDP, and released a PMI figure above 50 – the highest in two years. ECB President Draghi indicated interest rates would remain low for an extended period. The UK's housing market recovery continued, as the government extended its Help to Buy mortgage program, and Merkel was handily re-elected in Germany. In Asia, Japan continued to show improvement with a fourth consecutive monthly rise in exports. China unveiled new spending initiatives, and reported as expected 7.8% growth in GDP.

Thus, non-US markets jumped to five-year highs by quarter's end, with the developed market leading the way. The MSCI World ex-US index gained 11.3% in US$ terms, pulling one-year results up to 21.5%. Europe ex-UK significantly outperformed the Pacific region, +14.4% versus +8.0%. Most EU countries posted double-digit returns. Top countries included Greece (+33.6%) and Spain (+25.6%), where austerity and fiscal actions are seen as working. The Pacific region was held back this quarter by Japan, which rose only 6.7%. Japanese elections did support the market's enthusiasm for Abenomics. New Zealand and Australia rebounded and led performance in the Pacific region, gaining 17.2% and 11.9%, respectively.

Emerging markets finished higher at the end of the third quarter, though country- and sector-specific performance was mixed. Unlike developed markets, small-cap equities rose, but not as much as larger-cap peers. July and August were difficult months for emerging markets equities and fixed income. These sectors were hit hardest by the Fed's tapering announcement in May, particularly those countries with large current account deficits – the Fragile Five (Brazil, India, South Africa, Turkey and Indonesia).

The MSCI Emerging Markets index gained 5.8% for the quarter, but is up just 1% over the past year. EM Europe/Middle East was the best performing region, gaining 9.6%. Eastern Europe was the strongest area, with Poland and Russia gaining 17.1% and 13.6%, respectively. Latin America (+4.1%) was the weakest region, despite Brazil's rebound (+8.4%). Chile, Mexico and Peru all posted negative results. EM Asia gained 5.3%, with varying results. China gained 12.2%, led by strong results from internet and consumer discretionary stocks. South Korea gained 14.9%, led by auto stocks. The Indian, Indonesian and Thai markets all posted *negative* results.

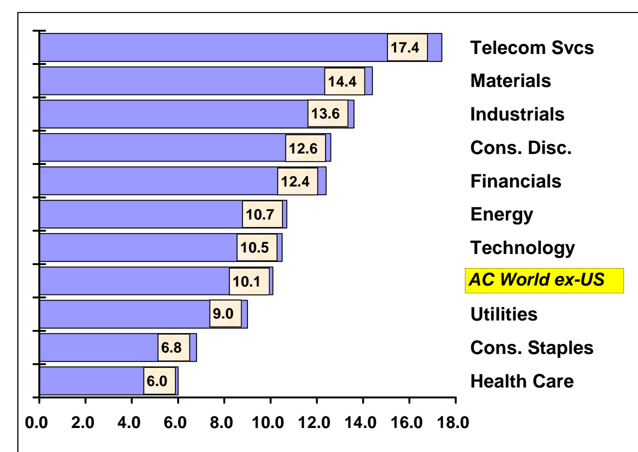
From a style standpoint, value indices once again outperformed growth internationally for the quarter. This was the opposite of our domestic exerience. All broad market sectors posted positive returns for the quarter, but cyclical sectors dominated defensive sectors. The top performing sectors were telecom (17.4%), materials (14.4%), industrials (13.6%) and consumer discretionary (12.6%). Lagging sectors included healthcare (6.0%), consumer staples (6.7%), and utilities (9.0%), which all posted strong gains.

The Fed's surprise decision to delay tapering led to broad US dollar weakness, thereby reversing the strong trend we observed during the previous year. All benchmark currencies rose versus the US dollar, with New Zealand being the most extreme, climbing 7.8%. The UK pound gained 6.7% and the euro 4.1%. Emerging markets currencies were broadly flat.

Figure 10: International Equity Markets - Returns

	U.S. Dollar Returns (%)		Local Currency Returns (%)	
thru Sept 30th, 2013	3Q '13	1-Yr	3Q '13	1-Yr
World ex-USA	**11.3**	**21.5**	**7.4**	**26.0**
- MSCI Growth	*10.1*	*20.3*	*6.2*	*24.9*
- MSCI Value	*12.5*	*22.6*	*8.5*	*27.0*
- Europe ex-UK	14.4	28.2	9.8	22.7
- Pacific, ex-Japan	10.3	11.6	8.6	19.7
- Japan	6.7	31.5	5.4	65.9
- United Kingdom	12.0	17.0	4.9	16.7
Int'l Small Cap	**15.0**	**24.8**	**11.1**	**31.6**
Emerging Mkts	**5.8**	**1.0**	**5.6**	**5.8**
- EM Asia	*5.3*	*4.2*	*5.0*	*6.8*
- EM Europe & ME	*9.6*	*3.2*	*8.4*	*6.8*
- EM Latin América	*4.1*	*(7.5)*	*4.6*	*(1.0)*
- EM BRIC	*8.6*	*1.2*	*9.4*	*7.0*

Figure 11: Ex-USA Sector Returns (in US$ terms)



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What Works?

We read an article recently entitled, "*Now is Always a Bad Time to Invest*". Essentially, the point was that you can pick any investment segment, anytime, and make a case for not investing in it. Today, for instance -

- US stocks are the only risk sector worthy of investment. But, stock prices are too far ahead of fundamental values. Watch out for a big correction!
- You can't invest in medium or long-term US bonds, because market yields are going to normalize at considerably higher levels. Price declines will outstrip coupon income, and you'll lose money;
- You can't invest in short-to-medium term US bonds, because they pay you much less than what inflation will be in the future. You'll lose money two ways;
- You can't invest in real assets and commodities, because global demand is flat, inflation is low, and will be for years. You'll lose more money;
- You can't invest in non-US stocks, especially emerging markets stocks, because too many foreign economies aren't doing well at all. The prospects for companies in those countries are collectively poor.
- You can't invest in non-US bonds, especially bonds of EM countries and companies. Yields are already too low, are rising, and prices are too rich for the fundamental risks you'll be taking.

So, what should we be doing as interest rates rise? To help us begin to address that, we did some research :-

	Period 1		Outcomes
	10/1/93	12/1/94	14 months
Market Structure			
10 Yr Treasury Yield	5.34	7.91	+246 bps
Federal Funds Rate	3.19	5.49	+230 bps
3-Mo LIBOR	3.38	6.25	+287 bps
CPI (1yr)	2.69	2.65	no change
Latest GDP Growth	2.1 (3Q93)	4.5 (4Q94)	sharp increase
Real Term Rates	2.65	5.26	+261 bps
Yield Curve, 10yr-3mo	1.97	1.66	flatter
Cumulative Returns			
Treasuries, short-term	0.94		positive
Treasuries, long-term	(10.45)		big negative
BarCap AGG	(3.53)		negative
Mortgage Bonds	(1.18)		slight negative
Bank Loans	13.35		big positive
Invest. Grd. Bonds	(4.86)		negative
High Yield Bonds	1.37		positive
Global Gov't Bonds	2.02		positive
EM Gov't Bonds	n/a		??
S&P 500	2.16		slight positive
Russell 2000	(1.87)		negative
MSCI EAFE	8.36		positive
MSCI Emerging Markets	33.64		huge positive
Commodities	12.43		big positive
Real Estate Securities	(10.71)		big negative

During the past 20 years, there have been only six instances when long-term domestic market yields moved up over 1% on a trough-to-peak basis. Not too many data points, but there you go. Some thoughts -

The first period started in October 1993 and lasted 14 months (see preceding table). Greenspan raised Fed Funds eight times. Like drip torture. Inflation didn't budge, so real rates shot up. This is the period most people refer to when discussing the impact of rising rates. If this is indicative, we'd better start buying bank loans, emerging market stocks, and commodities.

Period five started in January 2009, when short-term rates had already been nailed to the floor. It lasted only 5 months, and term yields rose 129 bps. The yield curve got steeper than it is today. You made alot of money in bank loans, high yield bonds and EM bonds, as well as EM stocks and commodities.

	Period 5		Outcomes
	1/1/09	6/1/09	5 months
Market Structure			
10 Yr Treasury Yield	2.42	3.71	+129 bps
Federal Funds Rate	0.14	0.21	+7 bps
3-Mo LIBOR	1.41	0.65	-76 bps
CPI (1yr)	0.09	(1.28)	declined 1.2%
Latest GDP Growth	-8.9 (4Q08)	-0.3 (2Q09)	sharp increase
Real Term Rates	2.33	4.99	+266 bps
Yield Curve, 10yr-3mo	1.01	3.06	much steeper
Cumulative Returns			
Treasuries, short-term	0.16		flat
Treasuries, long-term	(12.59)		big negative
BarCap AGG	1.32		slight positive
Mortgage Bonds	2.77		positive
Bank Loans	23.35		big positive
Invest. Grd. Bonds	5.44		positive
High Yield Bonds	25.38		big positive
Global Gov't Bonds	(1.61)		slight negative
EM Gov't Bonds	14.06		big positive
S&P 500	2.96		positive
Russell 2000	1.15		slight positive
MSCI EAFE	9.01		positive
MSCI Emerging Markets	38.06		huge positive
Commodities	6.65		positive
Real Estate Securities	(8.22)		negative

Our point today is just this: you can't reduce investment strategy in a rising rate environment to a sound bite. It's not that simple. We'll send you our full report shortly.

Sell high, buy low. See you next quarter!

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