

Market Index	July Change	Year to Date
Standard & Poor's 500	7.0%	-0.1%
Dow Jones Industrial Average	7.2%	1.9%
Russell 2000 (small company)	6.9%	4.8%
MSCI EAFE (international)	9.5%	-4.7%
Barclays Intermediate Gov/Credit Index	1.1%	5.7%
3-Month Treasury Bill	0.0%	0.1%

J-U-L-Y Spells RELIEF

On the heels of a 9-week correction that knocked more than 15% off of its value, the stock market staged a broad rally in July, with the S&P 500 Index gaining 6.9%. Although worries about the sustainability of the economic recovery continue to persist, investors seemed relieved to get past some events that had been causing anxiety in prior months, such as the European bank stress tests, second quarter corporate earnings, and financial services industry reform, to name a few.

Europe was finally a bright spot during July. Its equities were among the strongest in the world for the month, with Spain's market, for example, up over 14%. This renewed optimism led to a strong rally in the euro, which gained 6% versus the U.S. dollar. A key trigger for this sentiment shift was likely the conclusion of the European bank stress tests. Similar to the U.S. tests in 2009, the regulators tested the banks' ability to weather a severe financial storm. While most would agree that the tests were not extremely strenuous, they did increase the transparency of banks' credit risk exposures, and the market seemed glad to move on. International markets in general were strong up 9.5%, measured by the EAFE index.

**Economic Strength Takes A Breather...
But Earnings Are Still Beating Estimates Overall**

The market's brighter showing came amid economic news during the month that was generally discouraging domestically. GDP growth slowed to 2.4% in the 2nd quarter and is likely to remain depressed for several quarters. An important consumer confidence indicator fell more than expected to a 5-month low. The ISM manufacturing index was below expectations, dropping for the third straight month. Home sales continued to slip following the expiration of the homebuyer tax credit. This batch of soft economic data helped push interest rates lower: the 10-year Treasury note's yield fell as low as 2.88% and the 2-year Treasury hit 0.55%, an all-time low. As a result of the declining rates, the broader bond market, as measured by the Barclay's Intermediate Government/Credit index, posted a positive return of 1.1%.

Although economic data is still pointing to a sub-par recovery, earnings have been coming in much better than expected, especially within the cyclical sectors. The best performing sectors of the market in July were largely cyclical: Materials (+12%), Industrials (+10%), and Energy (+8%). Conversely, less cyclical, "safe haven" areas of the market like precious metals and Health Care lagged. While companies are posting strong profits, they are still cautious with the cash flowing to the bottom line. Many companies are hoarding cash to hedge against uncertainty, both from an economic and regulatory standpoint. For the recovery to pick up steam, we need businesses to hire additional workers and more actively reinvest in their businesses.



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