

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%

Investor pessimism returned in August as soft economic news increased concerns of a double dip recession. The stock market had its worst August since 2001 as the S&P 500 slipped 4.5%. Absent some unforeseen shock, a second economic contraction is still not the most likely scenario in our view; even so, investors piled into Treasuries and other "safe haven" assets during the month.

Bonds were up 1.2%, and the flight to quality pushed the 10-year Treasury note to a closing yield of 2.5%. Stronger currencies like the U.S. Dollar and the Japanese Yen and precious metals such as gold also benefitted from the risk aversion and rallied. The month's top sector performers were textbook examples of defensive areas: Telecom (+2.2%), Utilities (+0.9%), and Consumer Staples (-1.6%). These sectors typically have more predictable earnings and higher dividend yields. It was riskier areas of the market, like small-cap (Russell 2000 Index -7.4%) and the NASDAQ Index (-6.1%) that fared much worse in August.

Certainly, economic data that was released during the month was not very inspiring. Second quarter GDP growth was revised down to 1.6% from 2.4%. The unemployment rate remained high and payroll additions were weaker than expected. Existing home sales fell to their lowest level in 15 years and new home sales fell 12.4% to their lowest level on record. Retail sales were also below expectations. Amid the indications of weaker growth, the market became particularly sensitive to hints about future policy actions by the Federal Reserve. At a conference near the end of August, Chairman Bernanke indicated some steps that the Fed could take if the economic outlook were to "deteriorate significantly" but stopped short of implementing a second round of quantitative easing (i.e., increasing the money supply through purchases of Treasuries and other securities).

A strong pickup in merger activity, though, might suggest that cash-rich corporations are not as sullen. August is typically a slow period for Wall Street, but the month had a number of sizeable merger announcements. Intel announced it is buying McAfee, its largest acquisition ever, for over \$7 billion and followed that up with a purchase of Infineon's wireless unit. Hewlett-Packard and Dell engaged in a bidding war for a data storage company called 3Par. BHP launched a hostile bid for Potash Corp., a fertilizer company. Such hopefulness is also reflected in earnings estimates, which are forecasted to mark a new earnings peak in 2011 for the S&P 500 Index, surpassing its prior 2006 high.

Sentiment continues to see-saw between the dour economic data and the corporate optimism, and it didn't take long for the August memory to fade. During the first three days of September, sentiment shifted quickly and the stock market launched upward, erasing the losses of August.



**CINCINNATI**

3777 West Fork Road Cincinnati, OH 45247 513.661.3100 800.541.0170

**DAYTON**

40 North Main Street Dayton, OH 45423 937.461.3790 800.851.9114

**COLUMBUS**

100 E. Broad Street Columbus, OH 43215 614.365.9103 866.365.4523