



## Monthly Investment Update

September 6, 2011

### Market Performance Recap

Volatility turned extreme in the equities markets during August. The decline that began in July turned into a roller-coaster during August as global equities experienced wild swings from day to day. In a single week, two of the Dow's 11 worst daily point losses in history alternated with two of its 11 best days ever. A rally at month's end helped push the Dow back to just over even for the year, but the S&P 500 ended the month down roughly 10% from its July 7<sup>th</sup> high. The Russell 2000 continued to be hit by the shift to larger caps, while the Global Dow also suffered from growing concerns about the euro zone's larger economies.

Despite the first-ever downgrade of the United States' credit rating, Treasuries benefitted from global anxiety; as demand pushed prices up, yields fell to historically low levels. The uncertainty also meant a string of record highs for gold, which shot up more than \$250 an ounce over the month to a new record of nearly \$1,900 before falling back around \$1,800 an ounce. Oil prices retreated to the mid-\$80s as the dollar weakened once again.

Market/Index	2010 Close	Prior Month	As of 8/31	Month Change	YTD Change
<b>DJIA</b>	11577.51	12143.24	11613.53	-4.36%	0.31%
<b>NASDAQ</b>	2652.87	2756.38	2579.46	-6.42%	-2.77%
<b>S&amp;P 500</b>	1257.64	1292.28	1218.89	-5.68%	-3.08%
<b>Russell 2000</b>	783.65	797.03	726.81	-8.81%	-7.25%
<b>Global Dow</b>	2087.44	2088.82	1917.29	-8.21%	-8.15%
<b>Fed. Funds</b>	0.25%	0.25%	0.25%	0 bps	0 bps
<b>10-year Treasuries</b>	3.30%	2.82%	2.23%	-59 bps	-107 bps

### The Month in Review

- The last-minute resolution of the debt ceiling debate couldn't prevent Standard & Poor's downgrade of the U.S. credit rating (and ratings of various agencies linked to the federal government) from an impeccable AAA to AA+. Two other agencies maintained their existing ratings, but said they will be watching to see what further measures are taken to tackle the deficit, including proposals from a "super committee" charged with finding at least \$1.2 trillion in additional deficit reduction.

- With investors demanding higher yields on Italian and Spanish sovereign debt and virtually no economic growth in Germany and France, European leaders agreed to establish a council to oversee Eurozone economic issues. However, they declined to support creation of a Euro Bond backed by the entire European Union.
- Weaker-than-expected economic data led the Federal Reserve's Open Markets Committee to announce that it plans to keep interest rates at their current extreme lows through at least mid-2013 to try to give the recovery some breathing room. However, there was no sign of a new round of bond-buying (QE3); Chairman Ben Bernanke said fiscal policy measures, for which Congress and the Obama administration are responsible, are needed at this point rather than changes in the Fed's monetary policy.
- Economic growth in the second quarter was even slower than previously estimated, with the Bureau of Economic Analysis putting gross domestic product (GDP) at 1%. Manufacturing showed sharp declines, according to both the Institute for Supply Management and the Philadelphia Fed survey, though industrial production saw improvement. Unemployment increased slightly to 9.1%, with lost government jobs partly offsetting gains in the private sector.
- Housing prices as measured by the 20-city S&P/Case-Shiller index showed improvement from the previous month but were still down from last year. Meanwhile, housing starts and sales of existing homes dropped month-to-month, though both were up substantially from last year, according to the Commerce Department and the National Association of Realtors®.

### **Eye on the Month Ahead**

The country is in for renewed deficit-related congressional debate as the October 1<sup>st</sup> budget-setting deadline for the upcoming fiscal year approaches and the work of the deficit reduction super committee begins. President Obama will unveil his proposed jobs program September 8<sup>th</sup>. In addition to economic data that could help clarify the state of the economy, the Fed's review of its economic stimulus options at its expanded meeting September 20<sup>th</sup>-21<sup>st</sup> will be of interest.

### **Introducing the CapGroup Market Strategy Memos**

Economic and market events are extremely fluid, as evidenced by the dramatic downward shift in investor sentiment over the past few weeks and the constant flow of negative media reporting. Our clients expect us to sift through the “noise” and provide them well-informed, unbiased analysis and advice. To that end, we are using our firm’s weekly (Friday) Market Strategy sessions as the basis for the creation of ongoing *Market Strategy Memos* (MSM) that summarize our most recent thinking. Basically, the MSM for the week provides our current perspective on market and economic conditions in a briefing document that may be used as an outline for a discussion with your CapGroup Advisor. To that end, the weekly MSM is organized as follows:

- *Macroeconomic Forecasting Framework* - a general read on the health of the economy and its growth trajectory broken down into four basic scenarios.
- *Present Cyclical Stance* - our consensus view of the present cyclical condition.
- *Current Headwinds* - the primary headwinds that currently work as a drag on economic conditions and asset prices.
- *Current Tailwinds* - the primary tailwinds that currently serve to boost economic conditions and drive asset prices higher.
- *Conclusions and Recommended Investment Responses* – a discussion of general investment management recommendations and the tactical changes in our discretionary client portfolios.

We trust that our Market Strategy Memos will enhance our client communications efforts by providing timely and meaningful insights into our view of the factors that drive our recommendations and portfolio management decision making. The current edition will be available upon request from your CapGroup Advisor.

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*The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indexes listed are unmanaged and are not available for direct investment.*

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