



MARKET COMMENTARY

July was a weak month across the globe, with most major markets generating negative results. In developed economies, equity performance was dictated by market capitalization, with large caps returning -1 to -2%, mid caps -3%, and small caps -6%. The lone bright spot was emerging market equities, which returned 1.9% on an expansion in Chinese manufacturing orders. European investors sought safety in German bunds on the news of a Portuguese bank defaulting on its debt obligations and further tensions in Ukraine and the Middle East. The 10yr U.S. Treasury was largely unchanged for the month, while high yield experienced losses as \$5.4 billion was redeemed from non-investment grade ETFs and funds.

MARKET NEWS

- GDP is expected to expand by 4.0% during Q2 as companies report strong sales and inventory restocking; additionally, GDP for Q1 was revised upward, from -2.9% to -2.1% (BEA)
- The S&P 500 is on track to set another record earnings quarter in Q2, as companies are reporting 10.1% YOY growth and profit margins at 10.1%; thus far, 78% of reported EPS has surpassed estimates by 6% (J.P. Morgan)
- The \$5.4 billion that exited junk bond strategies in July was the largest outflow in 13 months; the move appears technical in nature, as retail sellers concerned about valuations have been filled by institutional buyers (Goldman Sachs)

INDEX RETURNS & MARKET LEVELS^{1, 2}

	Description	Month	3 Months	YTD	1yr
Equities					
S&P 500	<i>U.S. large cap</i>	-1.38%	3.02%	5.66%	16.94%
Russell 2000	<i>U.S. small cap</i>	-6.05%	-0.26%	-3.06%	8.56%
MSCI EAFE	<i>Non-U.S. developed</i>	-1.97%	0.59%	2.72%	15.07%
MSCI EM	<i>Emerging markets</i>	1.93%	8.29%	8.19%	15.32%

Fixed Income

Barclays U.S. Aggregate	<i>U.S. core inv. grade</i>	-0.25%	0.94%	3.66%	3.97%
Barclays Municipal	<i>U.S. municipal</i>	0.18%	1.55%	6.18%	7.27%
BofAML High Yield Master II	<i>U.S. sub inv. grade</i>	-1.32%	0.51%	4.24%	8.28%
JPMorgan EMBI Global TR	<i>Emerging markets</i>	0.12%	3.93%	9.22%	10.13%

Alternatives

HFRX Global Hedge Fund	<i>Hedge funds</i>	-0.88%	0.49%	0.87%	3.31%
Alerian MLP	<i>MLPs</i>	-3.55%	5.62%	12.19%	17.84%
S&P U.S. REIT	<i>REITs</i>	0.03%	3.55%	17.66%	12.10%
Bloomberg Commodity TR	<i>Commodities</i>	-4.98%	-7.16%	1.74%	1.44%

U.S. Economic Measures

U.S. GDP ³		4.0%	<i>(Q 2014, advance est.)</i>
CPI-U ex Food & Energy ⁴	<i>"Core" inflation</i>	1.9%	<i>(6/30/2014)</i>
Unemployment Rate		6.1%	<i>(6/30/2014)</i>

	Levels		
	8/1/2014	12/31/2013	8/1/2013
Rates			
2yr U.S. Treasury	0.47%	0.38%	0.35%
10yr U.S. Treasury	2.52%	3.04%	2.74%
3mo LIBOR	0.24%	0.25%	0.27%
Prime Rate	3.25%	3.25%	3.25%
30yr Mortgage Fixed	4.33%	4.72%	4.58%

Commodities

Gold (\$/oz.)	1,291	1,205	1,315
Copper (\$/MT)	7,078	7,395	6,999
Oil-WTI (\$/barrel)	97.88	98.42	107.89
Corn (\$/bushel)	3.45	4.10	4.88

Currencies

Euro (\$/€)	1.34	1.38	1.32
Pound (\$/£)	1.68	1.66	1.52
Jap. Yen (¥/\$)	102.48	105.11	99.23

Notes: 1) Sources: Bloomberg, J.P. Morgan Asset Management, Morningstar, Hedge Fund Research, Bureau of Labor Statistics, Bureau of Economic Analysis. 2) Data as of the date of this report unless otherwise noted. 3) U.S. GDP measures the percentage change during the referenced quarter as published by BEA. 4) Consumer Price Index for All Urban Consumers: U.S. City Average, All Items Less Food and Energy is based on 12-month percent change as published by BLS.

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