



Market Update: August 3, 2013

The economic signs keep showing signs of resiliency. We wouldn't call this booming economic data, but certainly strong. We have a very consistent economy and have read some economists dub this a "Plow Horse economy." It sets the stage for strong market base that allows, in our minds, for upside surprises.

Last week was a prime example. Last Wednesday was a textbook day with rates up 10 bps on the back of much stronger economic data out of the US. ADP at 200k vs. 180k expected and annualized GDP at a whopping 1.7% vs. 1.0%. However, the Fed came to the stand, with no evidence of tapering to start any time soon. The statement was actually more dovish than last time, with the committee saying the economy expanded at a modest pace during the first half of 2013, instead of a moderate pace.

Then on Thursday morning last week, the ISM manufacturing index increased to 55.4 in July from 50.9 in June, easily beating the consensus expected of 52.0. The major measures of activity were all higher in July and well above 50. The new orders index rose to 58.3 from 51.9 and the production index jumped to 65.0 from 53.4. The production index boomed in July, and the 65.0 reading was the highest since May 2004! According to the ISM, an overall index level of 55.4 is consistent with real GDP growth of 4.1% annually. We doubt real GDP will grow that quickly, but it should be faster in Q3 than in the first half of the year, which is certainly in line with my expectations for a strong final four months of the year post Labor Day. All good data points!

Please let us know if you are interested in our help in executing these thoughts.

Sincerely,

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Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US. The ADP National Employment Report is a report that measures levels of non-farm private employment, inventories, orders, and deliveries.

The ISM New Orders Index (ISM) indicates if business purchases are expanding or contracting. Each release stands on its own, a number greater than 50 means new orders are expanding, while a number less than 50 generally indicates a contraction. This release is published on the first business day of every month by the Institute of Management Supply. The Industrial Production Index (IPI) is an economic indicator that is released monthly by the Federal Reserve Board. The indicator measures the amount of output from the manufacturing, mining, electric and gas industries. The reference year for the index is 2002 and a level of 100.

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