



# Market Update

Asset Consulting Group, Inc.

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Monthly Report

July 2007

## THE U.S. ECONOMY

The U.S. economy rebounded sharply in the second quarter from the sluggish growth recorded in 1Q07, propelled by rising exports and business spending. However, pockets of weakness remained as the slump in U.S. housing continued and higher energy costs took their toll on consumer spending. Recent readings on core consumer prices show inflation moderating within the Federal Reserve's preferred range, which is expected to continue in coming months as the lingering slump in housing has economists ratcheting down growth forecasts for the second half of the year.

### 2Q07 GDP growth marks the 23<sup>rd</sup> consecutive quarterly increase...

The Commerce Department reported that the U.S. economy expanded at a 3.4% annual pace in 2Q07, following a revised 0.6% in the prior quarter, the fastest growth since 1Q06. The economy has now expanded in every quarter since the fourth quarter of 2001. The increase in real GDP primarily reflected positive contributions from accelerating exports and business investment. Exports of goods and services increased at an annual rate of 6.4% in the quarter, compared with an increase of 1.1% in the first three months of 2007. Business investments, which include spending on commercial construction as well as equipment and software, rose at an annual rate of 8.1%, after increasing 2.1% in the prior quarter. Housing construction fell at an annual rate of 9.3% after declining 16% in the first quarter.

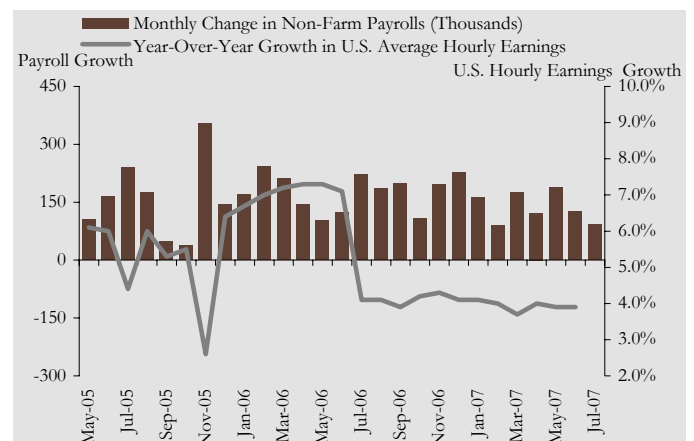
### Existing U.S. home sales fall for a fourth consecutive month...

Housing remains to be a drag on the economy as builders reduce construction activity and more restrictive lending standards and rising mortgage rates continue to impair home sales. Existing home sales fell 3.8% in June to a seasonally adjusted annualized rate of 5.75 million and were down 11.4% from last June. New home sales decreased 6.6% in June to a seasonally adjusted annualized pace of 834,000, after a 2.2% drop in May. However, the

inventory of total homes available for sale saw the first monthly drop in 2007, declining 4.1% from May, bringing the national supply of unsold houses to 8.8 months. For the first time since July 2006, the median price for existing homes increased from a year earlier. The national median sales price was \$230,100 in June vs. 229,300 a year ago. Mortgage rates have risen to the highest level experienced over the past eight months. The 30-year fixed mortgage rate closed at 6.50% at the end of July, up from 5.98% on Dec. 1, 2006.

### The pace of consumer spending falls and job growth slows...

Higher retail gasoline prices and declining home values took their toll on consumer pocket books in the second quarter. Consumer spending, the primary driver of economic growth in the first quarter (up an annualized 3.7%), slowed to 1.3% in 2Q07, the weakest reading since the last three months of 2005. Retail gasoline prices averaged above \$3.00 a gallon nationally in June, but slipped back to \$2.95 per gallon in late July. Employers added fewer jobs than forecast in July as job growth slowed to 92,000 from 126,000 in June. Job growth weakened due to a 28,000 drop from government payrolls while private industry payrolls (banks, insurance, retailers, etc.) jumped by 120,000. This figure followed solid growth of 108,000 new jobs added by private industry in June. Job growth has been positive in every month thus far in 2007 averaging 136,000 a month.



Source: Bloomberg

### Wages increase and inflation slows...

The relative strength in the U.S. job market continued to lend support for wage growth and retail sales. According to the Labor Department, wages in July rose 3.9% from a year ago, while U.S.

### Economy at a Glance

Recent growth indicators	Apr-07	May-07	Jun-07	Jul-07
ISM manufacturing	54.7	55	56	53.8
ISM non-manufacturing	56	59.7	60.7	55.8
U. of Michigan Consumer Confidence	88.7	88.3	92.4	90.4
Change in Payrolls (m-o-m, 000)	80	190	126	92
Personal Income (%m-o-m)	-0.1	0.4	0.4	
Personal Spending (%m-o-m)	0.5	0.6	0.1	

Source: Bureau of Labor Statistics, ISM, Bloomberg

retail sales increased 0.3%, following a 0.7% decline in June. Sales (less automobiles) increased 0.4% after falling 0.2% in the previous month. On the inflation front, prices tied to consumer spending patterns, as measured by the personal consumption expenditures index, the Fed's preferred inflation measure, rose 0.1% in June, a fourth consecutive monthly increase. The index was up 1.9% from June 2006 and currently falls within the Fed's preferred range of 1% to 2%.

Despite these relatively positive economic indicators, economists are forecasting a slower pace of economic activity for the second half of 2007. Mortgage foreclosures are forecasted to continue to rise, while the inventory of available homes sits at record levels contributing to the lengthening of the downturn in housing. Meanwhile, two surveys from the Institute for Supply Management for the U.S. manufacturing and non-manufacturing sectors both showed a deceleration in growth in July. These signs of slower growth prompted the Fed to trim growth forecasts for this year. The economy is now expected to grow by 2.25% to 2.5% in 4Q07, compared with a range of 2.5% to 3.0% forecasted in February. In light of below-average economic growth expected ahead, inflation will likely remain contained. This would give the Fed room to lower interest rates as the risk to inflation falls below the risk of a recession.

## GLOBAL EQUITIES

### U.S. Equities

Over the course of the first three weeks of July U.S. equity markets soared to record highs on better than expected corporate earnings, only to give way to soaring volatility and steep declines over the remainder of the month on concerns that spreading problems in U.S. credit markets would cause wider economic damage down the road. On July 19<sup>th</sup>, the Dow Jones Industrials closed above 14,000 for the first time, while the S&P 500 closed at a new high of 1553.08. From that point forward U.S. stocks fell, led by financial shares. Rising defaults on home loans caused two Bear Stearns' hedge funds to collapse, and also resulted in a 33% decline in the 2Q07 earnings of Countrywide Financial Corp., the nation's largest mortgage lender. At the close of trading on July 31<sup>st</sup>, the Dow Jones Industrials had dropped 788 points or 5.63% and the S&P 500 tumbled 98 points or 6.30% from their all time highs. The markets "fear" gauge, as measured by the Chicago Board Options Exchange VIX volatility index spiked 53% in July, surpassing levels last seen 12-months ago. For the month, the Dow Jones declined 1.35% (+7.29% YTD) and the S&P 500 dropped 3.10% (+3.64% YTD). In July, eight of the ten economic sectors of the S&P 500 posted losses, led by the

Financials sector, down 7.95%, with the Industrials (+0.99%) and Energy (+0.71%) moving slightly higher. Year-to-date, the Energy sector remained the top performer with a 17.10% gain. Small-cap stocks also set a record in July, as the Russell 2000 index reached 855.77 on July 13<sup>th</sup>. However, the index endured the worst selling among all capitalization tiers tumbling 80 points or 9.31% by the close of the month as investors adjusted their risk appetites shedding what are perceived the riskiest assets. For the month, the Russell 2000 fell 6.84% contributing to a decline of 0.82% YTD. The Russell Midcap index closed at an all time high of 1120.48 on July 19<sup>th</sup>, but plummeted 100 points, or 7.12% from that level, to close the month at 1040.69, down 3.72%. Year-to-date the index gained 5.82%. The largest growth stocks outperformed all other segments of the U.S. equity market for the month of July as the Russell 1000 Growth index declined 1.55% vs. a loss of 4.62% for the Russell 1000 Value index. Year-to-date, the Russell 1000 Growth index rose 6.45% compared with a gain of 1.33% for the Russell 1000 Value index.

### International Equities

The dollar weakened for a second consecutive month against the euro on concerns over the U.S. subprime market and the housing recession slowing down economic growth. For July, the dollar closed off 1.04% (-3.67% YTD) to \$1.3683 per euro. The dollar posted its biggest monthly decline in nearly three years against the yen, falling 3.72% to 118.60 in July (-0.39% YTD) as investors unwound carry trades by buying yen and shedding riskier assets.

Equities sold off worldwide in July on growing worries that defaults among U.S. subprime mortgages could spill over to global credit markets, potentially leading to depressed corporate earnings and reduced merger activity globally. The MSCI Europe index had a record closing high of 6366.96 on July 16<sup>th</sup>. However, revelations surrounding losses in U.S. subprime mortgage investments fueled selling as investors pulled funds out of equity markets. By the close of July, the MSCI Europe index had dropped 442 points, or 6.94% from its record high. In local currency, the index fell 3.46% for the month, but it gained 6.77% YTD. On a USD basis, the index declined 2.12% in July, but it rose 10.55% YTD. The MSCI EAFE index declined 3.24% in July, but rose 6.25% YTD in local currency terms. On a USD basis, the index lost 1.46% for the month, however it increased 9.47% YTD. Japanese equities experienced selling pressure as well with the Nikkei 225 index declining 1.68% in July, but gaining 0.55% YTD, both on a USD basis. The MSCI Emerging Markets index rose 5.33% and 24.02% for the month and YTD respectively, on a USD basis, pointing to continued "decoupling" of emerging markets from the developed equities.

## GLOBAL FIXED INCOME <sup>1</sup>

### US Fixed-Income

In the U.S. credit markets, rising delinquencies and defaults on subprime mortgages led to downgrades by credit rating agencies bonds backed by subprime mortgages. On Tuesday, July 10<sup>th</sup>, S&P and Moody's collectively downgraded, or placed on credit watch, 1,011 bonds that were backed by subprime mortgage securitizations. That sent Treasury yields tumbling as investors sought the safety of risk-free government securities. Yields on the 10-year Treasury note declined 48 basis points to 4.77% from a peak of 5.25% on June 12<sup>th</sup>. The drop in yields sent the Merrill Lynch U.S. Treasury Master index to its highest monthly gain since April 2005. The index rose 1.66% for the month and

US Corporate Earnings The S&P 500 Universe	Total Reported	% Reported	Share- Weighted % Chg.	Market-Cap Weighted % Chg.
Total Reported Q2/2007	453	90.6%	10.9%	14.8%
<b>S&amp;P 500 Economic Sectors</b>				
Consumer Discretionary	70/88	79.5%	-6.0%	4.5%
Consumer Staples	32/39	82.1%	14.6%	13.0%
Energy	32/32	100.0%	6.7%	11.6%
Financials	90/92	97.8%	12.6%	13.4%
Health Care	52/54	96.3%	8.5%	13.3%
Industrials	51/53	96.2%	16.6%	23.6%
Information Technology	58/73	79.5%	12.0%	27.9%
Materials	28/28	100.0%	7.0%	11.7%
Telecom Services	9/9	100.0%	39.0%	14.1%
Utilities	31/32	96.9%	14.6%	14.7%

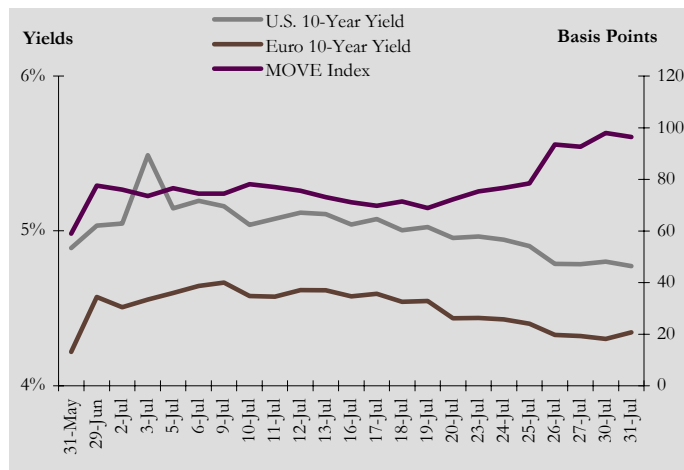
Percentages are based on income from continuing operations excluding gains, charges and one-time items. Earnings figures are diluted. Earnings estimates are provided by Bloomberg.

2.71% YTD. Yields on the Lehman Brothers U.S. Aggregate index declined slightly as well, from 5.64% to 5.57% by the end of July. The index rose 0.83% and 1.81% for the month and YTD respectively. The subprime woes caused corporate high-yield bond yields to widen and bond volatility to surge, as investors demanded more yield for the perceived growing risk of holding corporate bonds, especially lower grade. The Merrill Lynch Option Volatility Estimate, or MOVE\* index, a volatility gauge based on prices of over-the-counter options on Treasuries maturing in two to 30 years, was 96.40 on July 31<sup>st</sup>, the highest level since March 3, 2005, when it reached 99.4. The index stood at 77.50 on June 30<sup>th</sup> and 67.60 at the start of the year. Yields rose sharply on the riskiest bonds with the yield on the Lehman Brothers U.S. Corporate High-Yield index increasing 97 basis points to 9.08% by the end of July from 8.11% on June 30<sup>th</sup>. As investors became wary of jumping into the riskiest of bonds and demand for high-yield corporate debt declined, the Lehman Brothers U.S. Corporate High-yield bond index had its worst monthly performance since 2002, losing 3.54% for the month, and wiping out its 2007 gains, leaving a loss of 0.77% YTD.

### International Fixed Income

Global sovereign bond markets generally rose in July as investors worldwide shunned riskier bonds and equities in favor of the safety of government debt. The United Kingdom government bonds had the biggest gain, with the Merrill Lynch U.K. Gilts

index rising 3.98% for the month and gaining 2.87% YTD, both on a USD basis. The Merrill Lynch EMU Direct Government index gained 2.82% in July and was up 3.64% YTD. The JP Morgan Global Government Bond index had a monthly gain of 3.02%, and rose 2.46% YTD.



Source: Bloomberg

\*Implied volatility, as measured by the MOVE index, is the relative rate at which the market expects interest rates to move up and down.

All data from Bloomberg except for: 1- Lehman Brothers

## Indices Report

### Asset Consulting Group, Inc.

#### Monthly Indices Report

Periods Ending July 31, 2007

Index Name	Style	Returns							
		Month	Qtr	YTD	2 Qtrs	1 Year	3 Years	5 Years	10 Years
<b>Domestic Equity Indices</b>									
S&P 500	Large Cap Core	(3.10)%	(1.38)%	3.64%	2.10%	16.13%	11.76%	11.82%	5.98 %
S&P Equal Weighted	Large Cap Core	(4.52)%	(3.12)%	3.94%	1.52%	17.39%	14.40%	16.84%	10.12 %
Russell 1000	Large Cap Core	(3.09)%	(1.52)%	3.87%	1.90%	16.45%	12.50%	12.35%	6.37 %
Russell 1000 Growth	Large Cap Growth	(1.55)%	0.47%	6.45%	3.79%	19.48%	10.27%	10.18%	3.35 %
Russell 1000 Value	Large Cap Value	(4.62)%	(3.49)%	1.33%	0.05%	13.47%	14.65%	14.45%	8.56 %
Russell Mid Cap	Mid Cap Core	(3.72)%	(2.34)%	5.82%	2.36%	18.94%	17.44 %	17.91%	10.55 %
Russell 2000	Small Cap Core	(6.84)%	(4.44)%	(0.82)%	(2.45)%	12.12%	13.40%	16.01 %	7.80 %
Russell 2000 Growth	Small Cap Growth	(5.19)%	(1.43)%	3.65%	1.75%	16.82%	13.29%	15.67%	4.20 %
Russell 2000 Value	Small Cap Value	(8.51)%	(7.36)%	(5.03)%	(6.43)%	7.68%	13.42 %	16.28 %	10.68 %
Wilshire 5000	Broad Equities	(3.40)%	(1.48)%	3.90%	1.96%	16.51%	12.87%	13.08%	6.52 %
HFRI Equity Hedge	Long Short Equity	0.45%	3.67%	8.61%	7.36%	15.73%	12.96%	11.82%	12.63 %
<b>International Equity Indices</b>									
MSCI World	Broad Global	(2.19)%	(0.10)%	7.08%	5.81%	20.68%	17.72%	16.08%	6.75%
MSCI EAFE	Developed Markets Intl	(1.46)%	0.55%	9.47%	8.72%	24.43%	23.49%	20.34%	7.70%
MSCI EAFE Growth	Developed Markets Intl Growth	(0.80)%	1.60%	11.34%	10.44%	24.11%	22.42%	18.20%	5.14%
MSCI EAFE Value	Developed Markets Intl Value	(2.12)%	(0.48)%	7.62%	7.02%	24.66%	24.52%	22.43%	10.10%
MSCI Emerging Markets Free	Emerging Market	5.33%	15.81%	24.02%	25.32%	50.94%	41.93%	34.13%	N/A
<b>Domestic Fixed Income Indices</b>									
Treasury Bills	Cash	0.39%	1.22%	2.94%	2.52%	5.17%	3.87%	2.81%	3.79%
Merrill Lynch 1-3 Yr Treasuries	Treasuries	1.14%	1.17%	3.09%	2.95%	5.48%	3.10%	2.90%	4.85%
Lehman Muni 5 Yr	5 Yr Municipal Bonds	0.87%	0.39%	1.47%	1.69%	3.77%	2.82%	3.17%	4.41%
Merrill Lynch High Yield	High Yield Bonds	(3.12)%	(4.09)%	(0.22)%	(1.26)%	7.00%	7.29%	11.67%	5.98%
Lehman Aggregate	Core Bonds	0.83%	(0.24)%	1.81%	1.85%	5.57%	3.92%	4.40%	5.82%
Lehman Government	Government Bonds	1.43%	0.59%	2.56%	2.68%	5.80%	3.79%	3.93%	5.70%
Lehman U.S. Credit Index	Corporate Bonds	0.34%	(1.11)%	1.11%	1.13%	5.53%	3.86%	5.59%	5.97%
Lehman Muni 10 Yr	10 Yr Municipal Bonds	0.90%	(0.17)%	0.91%	1.36%	4.33%	3.98%	4.28%	5.16%
HFRI FOF Conservative	Low Volatility	0.22%	2.21%	6.74%	5.39%	11.30%	8.47%	7.64%	N/A
<b>Real Estate Indices</b>									
NCREIF Property	Real Estate	N/A	4.59%	8.38%	8.38%	17.24%	17.98%	14.26%	12.88%
NAREIT Equity	Real Estate	(7.80)%	(16.12)%	(13.24)%	(19.98)%	0.39%	17.77%	17.97%	11.90%

\* For comparison purposes, prior quarter returns are used

All time period returns are rolling returns except for YTD

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