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# PARTNERS GROUP

*The Partners Group Presents:*

## MONTHLY ECONOMIC UPDATE

August 2010

### MONTHLY QUOTE

“Praise is comforting,  
but not valuable.”  
– Peter Stone

### MONTHLY TIP

Did you know ... ?  
You may be able to  
put the cash-back  
rewards from your  
credit card toward  
your child’s college  
savings. A number of  
major banks and  
credit card firms will  
allow you to do this.

### MONTHLY RIDDLE

What do the words  
Potato, Voodoo,  
Grammar, Revive  
and Banana have in  
common?

### Last month’s riddle:

An auto dealership sold  
150 cars in a special 6-  
day tent sale offer. Each  
day the dealership sold  
6 more cars than the  
day before. How many  
cars were sold on the  
6th day?

### Last month’s answer:

40 cars. On the first  
day, the company sold x

### THE MONTH IN BRIEF

July is historically a good month for stocks, and July 2010 was no exception. Bulls took back Wall Street, encouraged by earnings reports (as of July 31, about two-thirds of companies in the S&P 500 had published earnings with about 75% beating expectations). The DJIA enjoyed its best month in a year.<sup>1</sup> Financial reforms were passed on Capitol Hill, and President Obama’s signature made them law. Rates on conventional mortgages hit lows unseen since the 1950s. The spring correction became a memory, even as analysts worried about a double dip and a stalling recovery.

### DOMESTIC ECONOMIC HEALTH

A poll of “Main Street” revealed an American consumer who was markedly less optimistic. The final July University of Michigan/Reuters poll came in at 67.8; compare that to 76.0 for June. (That 67.8 was also a nine-month low.) The Conference Board poll also went south, declining from a 54.3 for June to a 50.4 in July. One minor morale boost happened early in July when June’s unemployment rate was announced by the Labor Department: 9.5%, down 0.2% from June and better than the 9.8% Wall Street analysts were expecting.<sup>2,3</sup>

The manufacturing and service sectors were growing, just not booming – at least according to the latest readings from the respected ISM indexes. The non-manufacturing (service sector) index came to 53.8 for July after three straight months at 55.4, and the manufacturing index went from a 56.2 for June to a 55.5 in July (but that was much better than the 54.1 mark that analysts had predicted).<sup>4,5</sup> Other indicators were less encouraging. We learned factory orders had fallen 1.4% for May, while durable goods orders had dropped by 1.0% for June (economists polled by MarketWatch had forecast a 1.1% advance). The Commerce Department also estimated retail sales down 0.5% for June.<sup>6,7,8</sup>

Analysts had new reason to discuss deflation. For the first time since the presumed depths of the recession (October-December 2008), the Consumer Price Index declined for a third straight month. In June, it was down 0.1%, although the Labor Department did estimate core CPI at +0.2% for June.<sup>9</sup>

In other news, the 2Q GDP number came out: +2.4%. No one was too excited about it. The Dodd-Frank financial reform bill was signed into law (the “no more bailouts” bill). Besides trying to prevent a repeat of TARP, it green-lighted the creation of a new watchdog agency to help protect and educate consumers in the financial arena, opened up derivatives trading to the public eye, and set the FDIC insurance limit

cars. On the second day,  $x + 6$ , on the third day,  $x + 12$ , on the fourth day,  $x + 18$ , on the fifth day,  $x + 24$ , and on the sixth day,  $x + 30$ . If you add all the days together you get the equation:  $x + (x + 6) + (x + 12) + (x + 18) + (x + 24) + (x + 30) = 150$  cars sold.  $6x + 90 = 150$  and so  $x = 10$ . So, on day 6  $(x + 30) = 40$ .

permanently at \$250,000.<sup>10,11</sup> With other signatures, President Obama extended long-term jobless benefits for another six months and allowed homebuyers another three months to claim federal tax credits of up to \$8,000.<sup>12,13</sup>

## GLOBAL ECONOMIC HEALTH

The fire was almost out in the European Union – or maybe it was just smoldering. The EU and the International Monetary Fund had put the debt crisis in Greece on the back burner with a 110 billion euro bailout (plus about \$1 trillion worth of rescue packages for other EU nations with scarily high debt levels). The EU also conducted a stress test of 91 banks – all but a handful passed the test, which many economists thought was too easy. At the top of August, the euro was at a high unseen since March: \$1.3261.<sup>14</sup>

The whole world watches Chinese manufacturing closely, and China's official PMI index came in at 51.2 for July – a little disappointing, but easing concerns that its economy might be overheating. (However, a private sector PMI from that nation, the HSBC China PMI, went to 49.4 in July, indicating a bit of sector contraction plus the fourth month of decline in a row.) The pace of manufacturing declined across Asian economies in July, although the PMI in India improved for the sixteenth consecutive month. The EU's manufacturing index also improved in July, going from 55.6 in May to 56.7 with Germany driving sector growth.<sup>5,15</sup>

## WORLD MARKETS

Indices around the world advanced dramatically last month. The MSCI World and Emerging Markets indices respectively gained 8.02% and 8.00%. Other big gains were recorded by Brazil's Bovespa (+8.84%), Argentina's Merval (+8.70%), the RTSI in Russia (+9.16%), the Shanghai Composite (+7.24%) and even the FTSE in Great Britain (+8.05%). India's Sensex (+2.43%), China's Hang Seng (+3.41%), Germany's DAX (+3.37%) and France's CAC 40 (+4.77%) all had nice months. The Nikkei 225 rose 0.51%. If you looked long and hard, you could find a down month – such as the July performance of the stock indices of Venezuela (-1.16%) and Vietnam (-1.35%). Year-to-date at the end of July, the global forerunners were Chile's SSE (+20.79%) and the Jakarta Composite in Indonesia (+20.03%). In contrast, the Nikkei 225 (-10.58%) and the Shanghai Composite (-21.52%) represented the rear of the pack.<sup>16,17</sup>

## COMMODITIES MARKETS

Would you believe gold had the poorest month of any headline commodity in July? It was -5.15% for the month, and silver also lost some ground, going -3.58%. However, other metals did much better. Copper rebounded in July (+12.79%) and palladium was almost as hot (+12.51%). Platinum pulled off a 3.00% July gain. Among energy futures, oil was up 4.39% for July, natural gas gained 6.65%, and gasoline and heating oil futures respectively rose 2.24% and 1.41%. The big mover was an unglamorous but hugely important crop: wheat. Wheat futures soared 37.74% in July and sugar didn't do too badly either, jumping 21.86%. Other crops had strong Julys: milk went +10.67%, oats went +12.25%, and corn went +17.90%.<sup>17</sup>

## REAL ESTATE

Home sales continued to seesaw, affected by the perceived expiration of federal tax breaks. In June, existing home purchases dropped by 5.1% from May levels (an effect from the closing of the deadline for federal homebuying credits). NAR did say they were up 9.8% from June 2009. New home sales rebounded from a startlingly bad May – they rose 23.6% for June. The latest Case-Shiller index (May 2010 data) had new home prices in 20 major cities 1.3% above year-age levels.<sup>18,19,20</sup>

Could mortgage rates get any lower? Yes. It seemed every week we reached another all-time low for the national average on the 30-year FRM. In Freddie Mac's July 28 Primary Mortgage Market Survey, rates on 30-year conventional home loans were averaging 4.54% and rates on 15-year FRMs were averaging 4.00%.<sup>21</sup>

## LOOKING BACK ... LOOKING FORWARD

The S&P 500 and the Dow had their best months in a year in July, and the NASDAQ logged its first monthly gain since April. At the end of July, the DJIA was back in the black.<sup>1</sup>

% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+0.36	+7.08	+14.33	-0.05
NASDAQ	-0.64	+6.90	+13.63	-4.01
S&P 500	-1.21	+6.88	+11.64	-2.30
REAL YIELD	7/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	1.14%	1.78%	1.92%	4.03%

Source: cnbc.com, bigcharts.com, ustreas.gov, bls.gov - 7/30/10<sup>1,22,23,24</sup>  
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.  
These returns do not include dividends.

In August, we have the widely held perception that the recovery is crawling along. We now have news from the Commerce Department that both consumer spending and consumer income were flat for July, adding fuel to that fire.<sup>25</sup> Again and again, the stock market has recovered from downturns faster than the economy. Another stimulus is probably not in the cards. So we are in sit-and-wait mode: frustrating perhaps, but the Great Recession was one of the severest in memory. Talk of a double-dip has begun to fade a bit, however, and stocks are currently pretty cheap. At the end of June, who would have guessed July would have been so fantastic? Hopefully, we will see stocks rise a bit, if not in late summer then perhaps after election time.

Finally, here are the important economic releases for the rest of August. We have the ISM services index for July (8/4), the July jobless report (8/6), an FOMC rate decision and June wholesale inventories (8/10), July CPI and retail sales, June business inventories and the preliminary August University of Michigan consumer sentiment survey (8/13), July PPI, housing starts and building permits and June factory output (8/17), July new home and existing home sales (8/24), July durable goods orders (8/25), July personal income and personal spending (8/30), and the June Case-Shiller home price index and the Conference Board's August barometer of consumer confidence (8/31).

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We will contact them first and request their permission to add them to our list.***

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Stock Exchange Sensitivity Index is a value-weighted index composed of 30 stocks that started January 1, 1986. The Hang Seng Index is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The Nikkei 225 is the benchmark stock market index for the Tokyo Stock Exchange (TSE). The Caracas Stock Exchange or Bolsa de Valores de Caracas (BVC) is a stock exchange located in Caracas, Venezuela. Ho Chi Minh City Stock Exchange (HSX), located in Ho Chi Minh City, is the largest stock exchange in Vietnam. The Santiago Stock Exchange (SSE), founded on November 27, 1893, is Chile's dominant stock exchange. The JSX Composite is an index of all stocks that trade on the Indonesia Stock Exchange. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance data is historical and not indicative of future results. Market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. [www.montoyaregistry.com](http://www.montoyaregistry.com) [www.petermontoya.com](http://www.petermontoya.com)

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