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# Market Month: July 2014



## The Markets

Encouraging economic news, generally positive Q2 corporate earnings reports, and stable Federal Reserve policy had to battle multiple geopolitical conflicts for investor attention. Both the S&P 500 and Dow industrials managed to set fresh all-time highs early in July, but the S&P managed to follow through to additional records while the Dow slipped back under 17,000. After five straight positive months, both succumbed to profit-taking that left them under water for July. That handed the year-to-date lead to the Nasdaq (barely), while the small caps of the Russell 2000 gave up most of the previous month's gains and joined the Dow in negative territory for the year. Global conflicts and instability in some emerging markets also hurt the Global Dow.

After a June rally, gold prices slid back under \$1,300 an ounce in July. A stronger dollar allowed the price of oil to drop below \$100 a barrel by the end of the month. Meanwhile, the benchmark 10-year Treasury yield ended the month up slightly from where it began.

Market/Index	2013 Close	Prior Month	As of 7/31	Month Change	YTD Change
<b>DJIA</b>	16576.66	16826.60	16563.30	-1.56%	-.08%
<b>Nasdaq</b>	4176.59	4408.18	4369.77	-.87%	4.63%
<b>S&amp;P 500</b>	1848.36	1960.23	1930.67	-1.51%	4.45%
<b>Russell 2000</b>	1163.64	1192.96	1120.07	-6.11%	-3.74%
<b>Global Dow</b>	2484.10	2605.62	2579.30	-1.01%	3.83%
<b>Fed. Funds</b>	.25%	.25%	.25%	0 bps	0 bps
<b>10-year Treasuries</b>	3.04%	2.53%	2.58%	5 bps	-46 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

## The Month in Review

- The U.S. economy seems to have rebounded from Q1's 2.1% contraction, growing 4% in Q2. However, that initial estimate of gross domestic product is subject to revisions by the Bureau of Economic Analysis over the next two months (for example, the initial Q1 estimate showed a 0.1% gain). Increases in exports and consumer spending (especially on durable goods) as well as more business inventory investment and state/local government spending drove the GDP gains.
- The unemployment rate remained at its lowest level in almost six years (6.2% in July), which is more than a full percentage point below a year earlier. The Bureau of Labor Statistics also said the 209,000 new jobs added to payrolls in July roughly equaled the average monthly job gains over the last year.

#### Key Dates/Data Releases

**8/1: Unemployment/payrolls, personal income/spending, auto sales, ISM manufacturing report, construction spending**

**8/4: Factory orders, ISM services report**

**8/6: Balance of trade**

**8/8: Business productivity**

**8/13: Retail sales**

**8/15: Wholesale inflation, industrial production, Empire State manufacturing survey, options expiration**

**8/19: Consumer inflation, housing starts**

**8/20: FOMC minutes**

**8/21: Home resales, Philadelphia Fed manufacturing survey, leading economic indicators**

**8/25: New home sales**

**8/26: Durable goods orders, home prices**

**8/28: Q2 GDP (revised estimate)**

**8/29: Personal income/spending**

- Manufacturing data was generally encouraging. New orders for U.S. manufacturers were at their highest level since late 2013, according to the Institute for Supply Management, and the ISM's gauge of the services sector showed growth continuing, though at a slightly more moderate pace. Durable goods orders, especially business orders for capital equipment, rebounded from a May slump, and the Federal Reserve said U.S. manufacturing output rose for the fifth straight month.
- The housing market showed signs of fatigue. According to the Commerce Department, sales of new homes plunged more than 8% in June and were 11.5% lower than a year earlier. Home prices measured by the S&P/Case-Shiller 20-City Composite Index continued to improve, but the 9.4% increase over last May represented a slower pace than in April. And wet weather in the South helped slow housing starts by 9.3%. However, the National Association of Realtors® said home resales were up 2.6% for the month.
- Both the European Union and the United States tried to increase pressure on Russia to end support for Ukrainian rebels by adopting new measures that are expected to affect Russian banks, the country's oil industry, and the military.
- Higher gas prices helped send consumer inflation up 0.3% and wholesale prices up 0.4% in June. That put annual inflation rates at 2.1% (consumer) and 1.9% (wholesale), according to the Bureau of Labor Statistics. Meanwhile, retail sales rose 0.2% in June, though the Commerce Department doesn't adjust the figures for price increases such as those seen in food costs.
- The Securities and Exchange Commission announced new rules governing money market mutual funds that are intended to guard against a sudden run on such funds. The rules, which will be implemented over time, will require a floating net asset value for funds serving institutional investors (those serving individuals will continue to strive for a stable \$1 per share price, though there will continue to be no guarantees that they will always do so). The SEC also would allow non-governmental money market funds to impose restrictions during a crisis to deter withdrawals.

#### Eye on the Month Ahead

The dog days of August will likely keep trading volumes light, which can sometimes heighten volatility. The Federal Reserve will pause its Great Unwind of quantitative easing, likely picking up again in September, and global conflicts could continue to counterbalance any economic good news.

*Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.*

*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 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indices listed are unmanaged and are not available for direct investment.*

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