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ECONOMY: Data Dependent Fed In Focus

FED YING & YANG
Fed officials were divided in July over the urgency to raise rates, according to the minutes of their last meeting. Some officials prefer to wait as inflation remains benign, while others are eager to act as soon as the labor market nears full employment. Their next policy meeting is Sept. 20-21.

HOUSING REBOUNDING
While the housing market continues to improve, the recovery remains constrained. Reports on sales were mixed, with existing home sales down and new home sales up strongly. Although markets were looking for a decline in July, new home sales jumped 12.4%. The increase puts sales back at levels that have not been seen since before the recession.

JOBS & RATES
The August jobs report showed an increase of just 151,000 jobs versus an expectation of 180,000. The July report was revised marginally higher, while the June report was revised marginally lower. It appears that this report has decreased the likelihood of a September rate hike.

CONSUMER CONFIDENCE REBOUNDS
The Conference Board ***Consumer Confidence Index***®, which had decreased in July, increased for August. *"Consumer confidence improved in August to its highest level in nearly a year, after a marginal decline in July. Consumers' assessment of both current business and labor market conditions was considerably more favorable than last month. Short-term expectations regarding business and employment conditions, as well as personal income prospects, also improved, suggesting the possibility of a moderate pick-up in growth in the coming months."*

INSTITUTE FOR SUPPLY MANAGEMENT-REPORTS ON BUSINESS
Economic activity in the non-manufacturing sector grew in August for the 79th consecutive month, while the manufacturing sector contracted in August following five consecutive months of expansion. The overall economy grew for the 87th consecutive month

POTENTIAL SHIPPING CRISIS
The Retail Industry Leaders Association warned the Department of Commerce and the Federal Maritime Commission on the situation regarding the bankruptcy filing of South Koreas Hanjin Shipping. Hanjin handles nearly 8% of trans-Pacifica trade volume, and the resulting chaos in the shipping industry comes as U.S. retailers begin stocking for the holiday seasons.

MORE POLITICAL DYSFUNCTION IN EU
Spain's political crisis is deepening after acting Prime Minister Mariano Rajoy lost a parliamentary confidence vote for another term, thus bringing the country closer to its third election in a year. The lack of a properly functioning government are limiting the countries economic recovery.

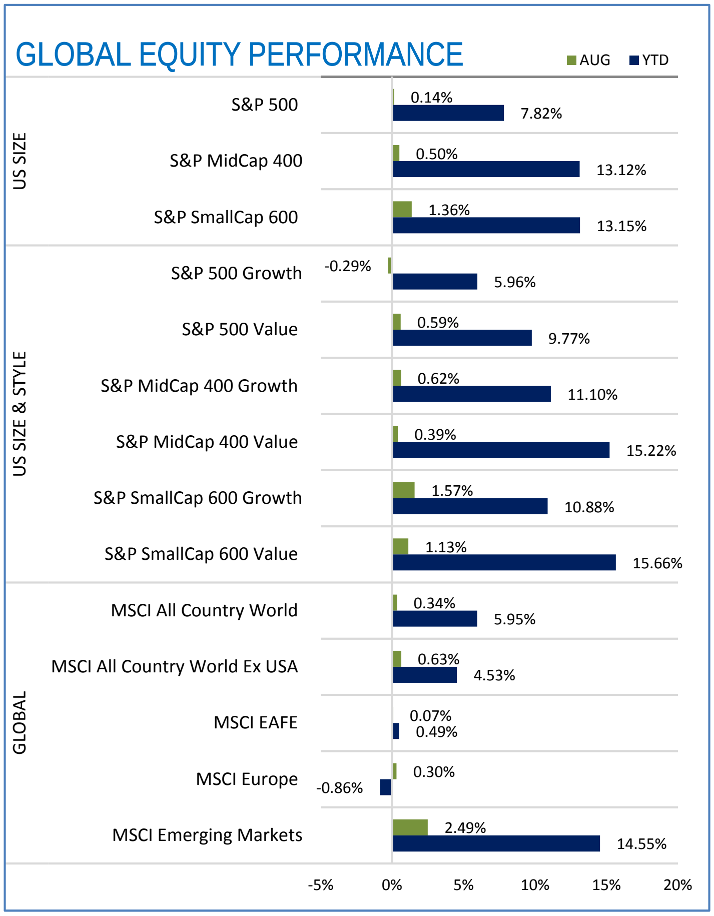
DEBUT IN DEMAND
Saudi Arabia's first international debt sale has generated such significant interest, that the kingdom is mulling additional bond sales to follow its initial $15 billion auction. Demand from yield starved investors has continued to push money into higher yielding developing economies.

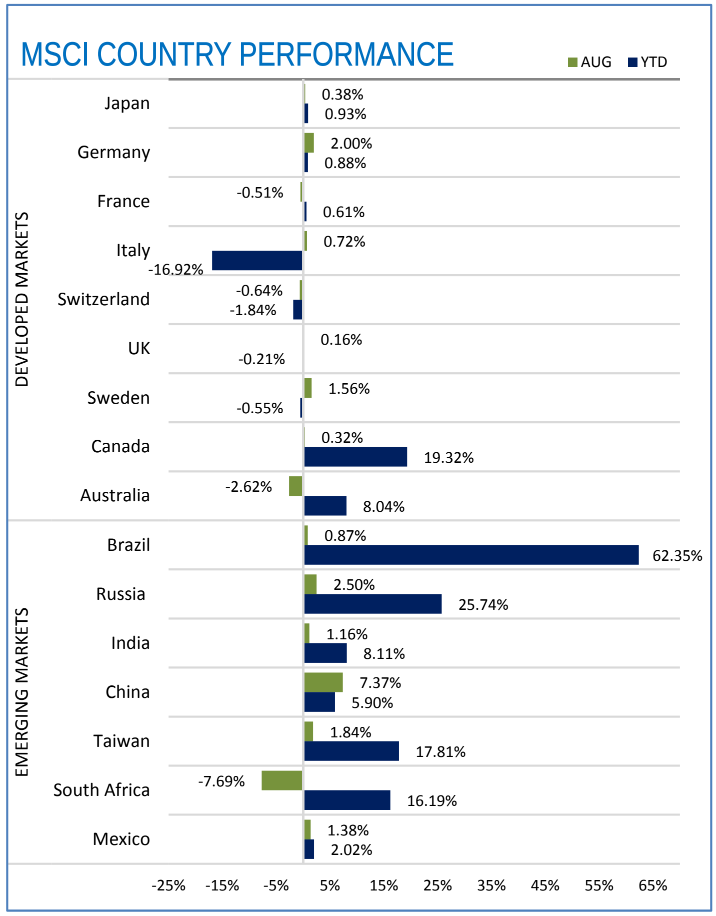
A CRACK IN THE GREAT WALL?
Moody's recently released a report noting "systematic risks" within China's banking system. They believe the significant pace of asset growth has not been funded by deposits, but rather interbank assets. In the event of an unexpected shock, banks would withdrawal assets from one another to meet funding needs, which could potentially cause contagion.

WILDFIRES BURN CANADIAN GROWTH
The Canadian economy contracted by 1.6% in Q2, primarily the result of slowing exports due to massive wildfires in the province of Alberta The wildfires had a significant impact on oil production in the months of May and June.

BRAZILIAN PRESIDENT IMPEACHED.
The Brazilian Senate finally voted to impeach embattled President Dilma Rousseff for violating fiscal laws.

GLOBAL EQUITIES: Emerging Market Rally Continues





Slow Month For S&P 500

By historical standards, August was a slow month for the S&P 500. While the summer months tend to be less active, there was an 18% decline in trading compared to the average of the past 10 Augusts. Despite a lack of activity, the index set three new closing highs. Volatility was low as well, and the index went all month without a 1% move in either direction. The S&P 500 posted its first decline (in price) after five months of gains, as it fell 0.12%, but it was up 0.14% with dividends. From the Feb. 11, 2016 low of 1,829.08, the index has increased an impressive 18.79%

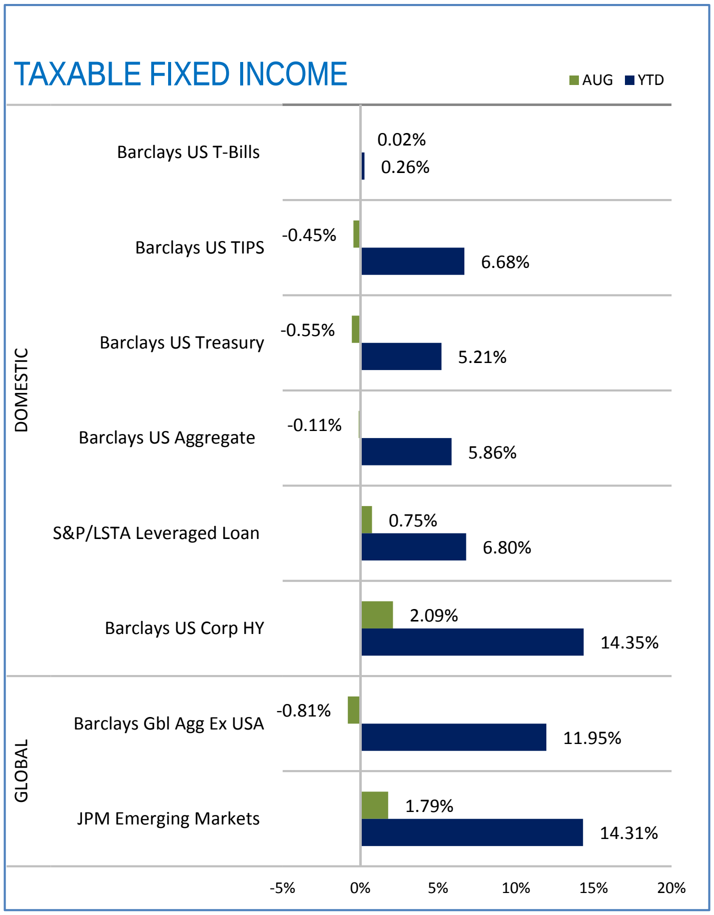
Small Size = Big Returns

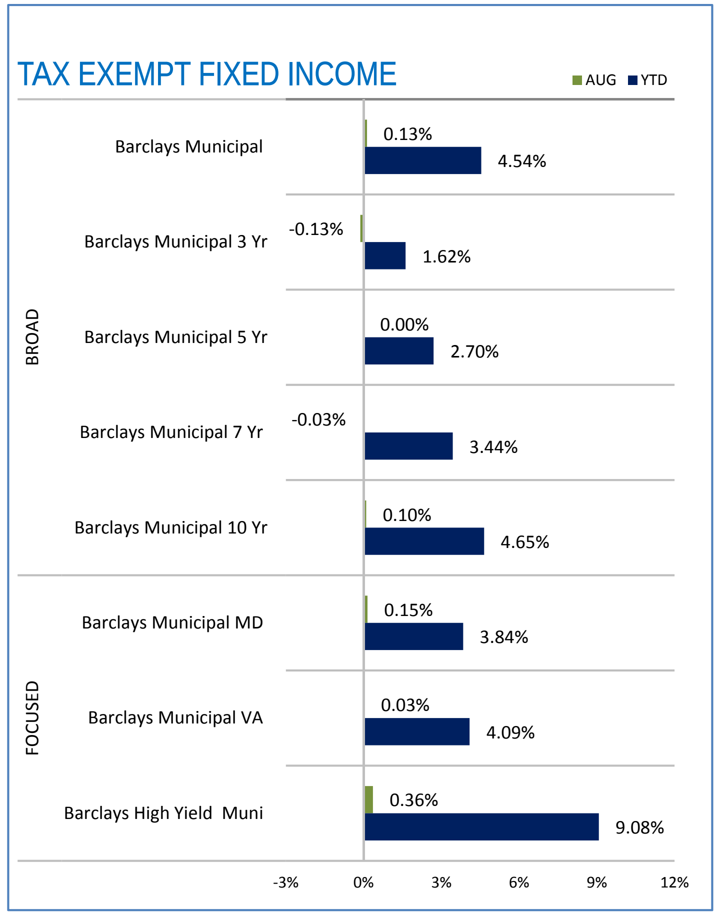
The S&P Small Cap 600 again did the best for the month, up 1.36% in August, after being up 5.09% in July. The index posted its seventh consecutive monthly gain for a cumulative return of 20.59% following a 6.17% decline in January. It is up 13.15% YTD, and has a trailing one-year return up 13.20%, outperforming both large and mid caps.

Continued Strength In EM

Emerging markets again outperformed developed markets, as the MSCI Emerging Markets Index added 2.49% for the month. Performance within the BRIC markets (Brazil, Russia, India, & China) drove the gains. China, which makes up nearly 24% of the index, was up 7.37% in August.

FIXED INCOME: All Eyes On September





A Hike In Septemper?

The Barclays U.S. Treasury Index fell 0.55% in August after a slew of hawkish rhetoric from Fed officials increased the probability of a September rate hike to 34% in the futures market. The fed continues to be "data dependent," with a specific focus on the labor markets. The yield on the 10 yr U.S. Treasury closed the month at 1.58%, up 0.13% from July.

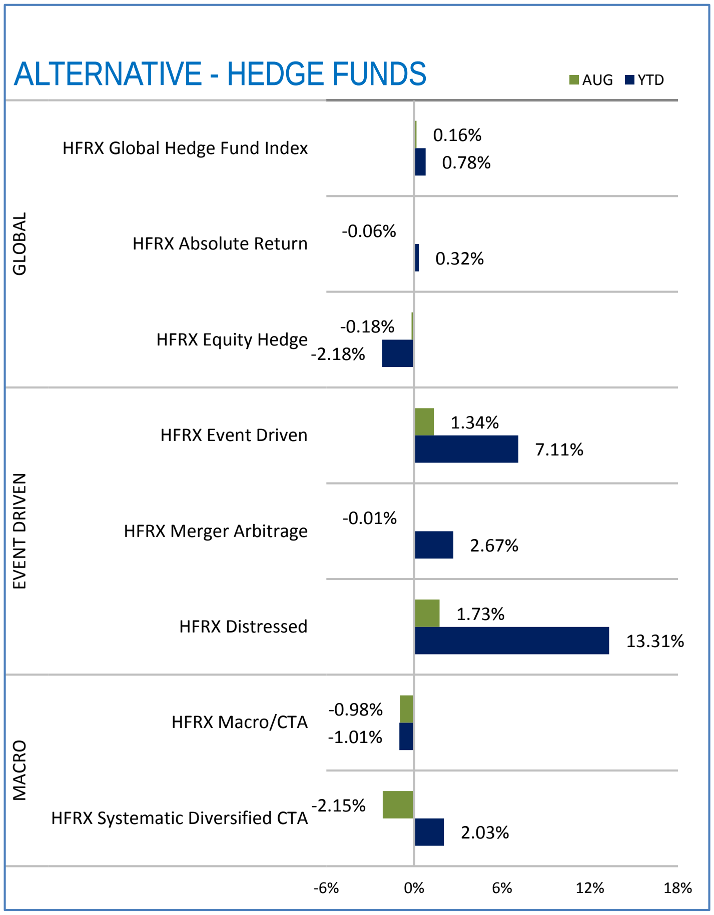
Risk Assets Outperforming

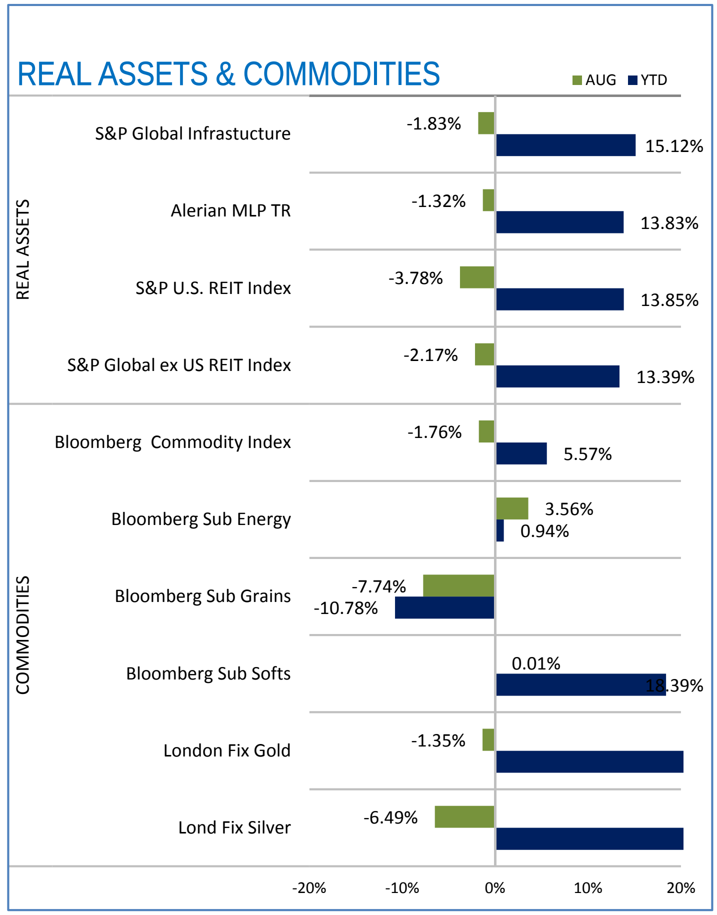
Risk assets continued to push higher in August as stocks reached new highs and credit spreads tightened. Credit sensitive sectors generated attractive returns for the month. The Barclays U.S. Corporate High Yield Index was up 2.09% while the JPM Emerging Markets Bond Index returned 1.79% in August. Low and even negative global interest rates continue to drive investors into riskier assets in search of yield.

Corporate Profits & State Revenues

Moody's believes that the 4th consecutive quarter of negative corporate profit growth is a negative credit development for the municipal sector as well, as it will negatively impact state revenues. While corporate profits are a small (5-7%) source of state revenues, the recent fall in corporate profits contributed to a 3% decline in state corporate income tax revenue in the 12 month period ending in March 2016. The largest downward budget revisions occured in AK, CO, IA, LA, NJ and ND with energy sector profits being a significant factor.

ALTERNATIVES: Lousy Month For Real Assets





It's All In The Strategy

Hedge funds generally posted mixed results in August. Global Macro strategies declined, while Event Driven strategies continued to perform well. The HFRX Event Driven Index rose 1.34%, while the HFRX Distressed Index ended up 1.73%.

REITs Retreat

REITs underperformed the equity markets in August as the S&P U.S. REIT index fell 3.78%. The decline in REITS came as interest rates rose, and the expectations of a Fed rate hike increased. REIT returns continue to outperform equities on a YTD basis, up 13.85%. August also marked the month when REITs became a separate sector classification within the S&P 500. Previously, they had been included in the "financials" sector.

Don't Bet The Farm...

The Bloomberg Commodity Index (BCOM) gave up early month gains in the last week of August, declining 1.76% for the month. The losses were led by sharp declines in corn, soybeans and wheat, on what is expected to be a robust harvest season. A recovery in energy prices was insufficient to offset declines in the other major sectors, as both wheat and corn ended August near decade lows. Precious metals also took a hit on profit taking and an increased expectation that the Fed will tighten.