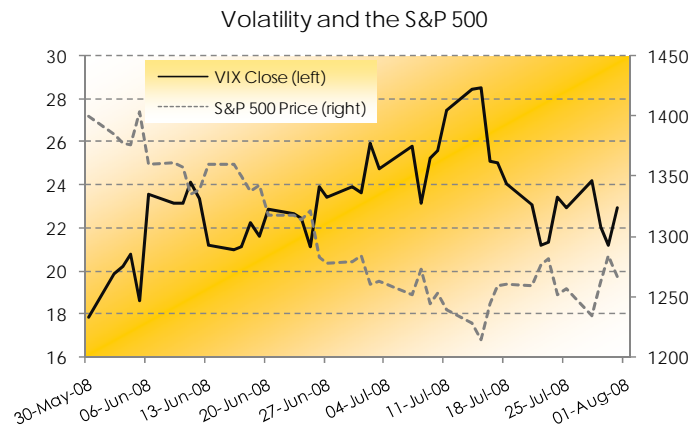


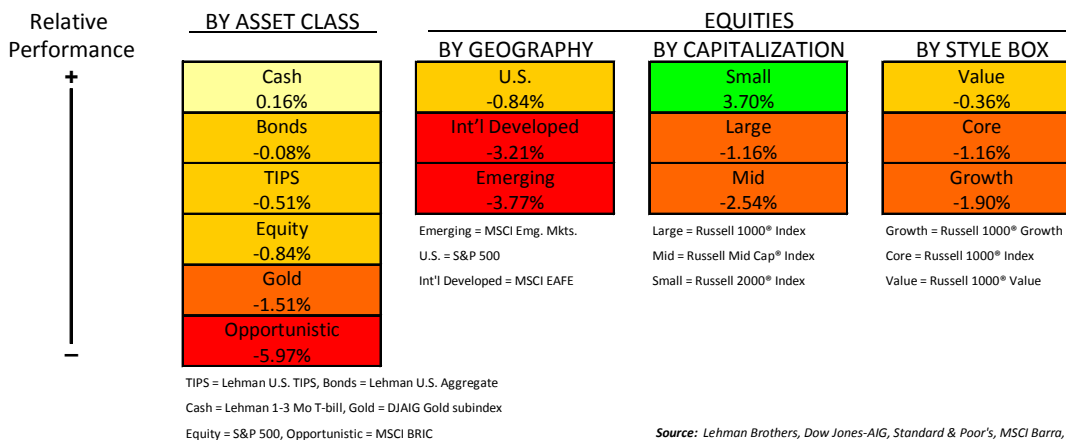
U.S. equity markets extended their declines into the first half of July before rebounding slightly toward the end of the month. The S&P 500 index ended July -0.8% lower. Volatility spiked and markets plunged (*see chart at right*) as the Freddie Mac/Fannie Mae crisis took center stage. Heightened volatility (as measured by the VIX index) is usually a symptom of declining markets, reflecting a higher perceived risk for equities. Once the Treasury confirmed that Freddie and Fannie would indeed have the “full faith and backing” of the U.S. government (via a bailout plan if necessary), markets came off their lows for the month. Financial stocks regained some ground in July, rising almost 7% on a price-return basis, but still have fallen more than 26% year to date.



Small capitalization U.S. equities bucked the negative trend gaining 3.7% in the month. Indices of Large and Mid-cap stocks both declined, falling -1.2% and -2.5%, respectively. Value-style equities outpaced Growth, largely due to the bounce in Financial stocks. The Russell 1000 Value index declined -0.4% while the comparable Growth index fell -1.9%.

Non-U.S. equity markets experienced even greater declines. International developed markets, as measured by the MSCI EAFE index, fell -3.2%. Emerging markets fell -3.8% and the opportunistic “BRIC” (Brazil, Russia, India & China) index declined almost -6.0%. China and India bounced back this month, but Brazil fell under the weight of a reversal in commodity prices. The overarching drag on worldwide markets was global inflation and concerns that central banks are unable to raise rates in a slowing growth environment.

The Lehman U.S. Aggregate lost -0.1% in July, extending its monthly losing streak to four. Despite inflation concerns, defensive holdings such as Treasury Inflation Protected Securities fell -0.5%, and gold lost -1.5%. Oil finally retreated from its historical high of more than \$145 per barrel reached in early July, to close the month roughly \$20 below that level.



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