WEEKLY *Insight*

Data as of: August 19, 2015

Some readers may have missed a week of very interesting news as late-summer vacations are in full swing. The things that did not change this past week include the drought in California, the wildfires in the western states, the traditional mid-August start to the Iowa State Fair, and Donald Trump's presidential stumping. In the equity markets, the weakness that began in the early summer months also continued this week.

Yields fell and prices rose across the fixed income markets over the week due to a steady stream of data that spread the smoke of deflation across the economic horizon. Some of the pressure originated outside the U.S. As the prices of imported goods fall, imported deflation is also arriving with the shipments. The U.S Import Price Index for July continued its downward trend falling -10.4% year-over-year. Adding to imported deflationary pressure was China's surprise devaluation of the Yuan, which was followed by several smaller countries.

While our readers can be heard cheering for lower gas pump prices and airline fares, a domestic deflationary undertone is undeniable as crude oil futures hit a six year low this week. Excluding the impact of energy prices, the Consumer Price Index [ex food and energy] modestly increased 1.8% for the twelve months ending July. Strength in consumer spending was evident as retail sales advanced 0.6% between June and July.

Although industrial production was reported higher, the Empire Manufacturing Index shook the markets falling to -14.9 for July from 3.9 in June. Readings less than zero indicate a contraction in economic activity. It may take several months to determine if a revision is coming or if manufacturing sector weakness is a concern. The Producer Price index for July remained tame as core PPI rose at a 0.6% annual rate.

Downward pressure on interest rates persisted with the release of minutes from the Federal Reserve's July meeting, which appeared to indicate a delay in rate hikes. Much of the bond yield improvement happened in the 2-7 year maturity range where there is higher sensitivity to the timing of the inevitable rate hike.

As a final, but not surprising, note for the week the State of Alaska is suffering from the decline in oil prices because the state does not levy income or sales taxes but relies on petroleum tax revenues for 74% of their annual budget. The rating agencies have publically stated the AAA rating is at risk.

Weekly Market Topics

- Economy
- Fixed Income Markets
- Equity Markets

Interest Rates (%)	Current	6M Ago	12M Ago
Fed Funds Rate	0.25	0.25	0.25
3-Month T-Bill	0.04	0.02	0.02
10-Year Treasury	2.13	2.11	2.43
30-Year Treasury	2.82	2.71	3.22
10-Year Corporate AA	3.34	2.97	3.15
10-Year High Yield Corp.	6.37	5.40	5.32

Commodity Prices ($)	Current	6M Ago	12M Ago
Gold ($/oz.)	1,133.78	1,201.95	1,291.92
Silver ($/oz.)	15.32	16.24	19.48
Oil ($/barrel)	40.80	50.34	96.07
Natural Gas ($/MMBTU)	2.72	2.95	3.82

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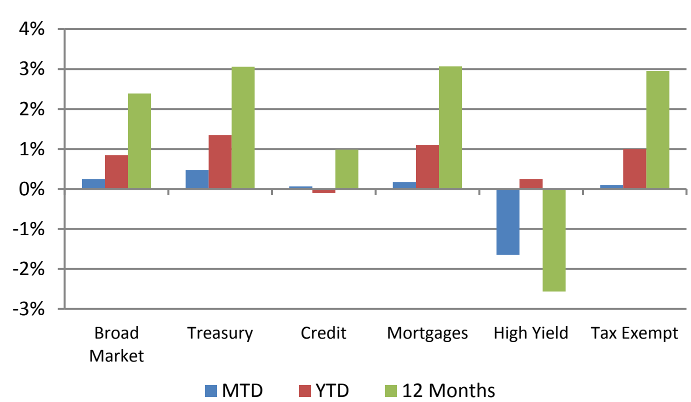
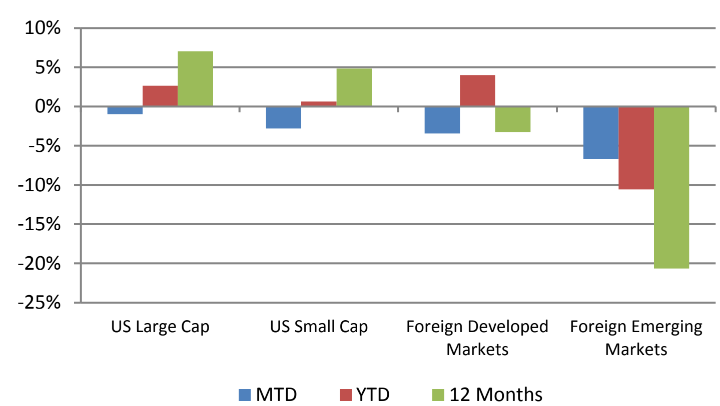
Bond Market Total Returns



Equity Market Total Returns



Source: BTC Capital Management, Bloomberg LP, Ibbotson Associates.
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