

So Much for a Relaxing Summer

Market Summary

June 2007

June saw the start of summer and one of the more volatile months this year ending with most major markets down. February was the only other loss month this year, which was driven by a single trading day. In June, however, there were big gains on some days, but there were more days of big losses, often spurred by concerns over rising interest rates and the potential fallout from subprime mortgages.

	June	YTD	1 Yr	3 Yrs	5 Yrs
Domestic Equities/Fixed					
S&P 500	(1.7)	7.0	20.6	11.7	10.7
Russell 2000	(1.5)	6.4	16.4	13.4	13.9
Russell 1000 Growth	(1.5)	8.1	19.0	8.7	9.3
Russell 1000 Value	(2.3)	6.2	21.9	15.9	13.3
Dow Jones Wilshire REIT	(9.4)	(6.0)	11.7	22.3	19.2
Lehman Aggregate Bond	(0.3)	1.0	6.1	4.0	4.5
International Equities					
MSCI EAFE	0.1	10.7	27.0	22.2	17.7
S&P/Citigroup EMI-EPAC	(1.0)	12.4	32.0	27.6	24.6
MSCI Emerging Markets	4.7	17.5	45.0	38.2	30.3
Alternative Assets					
GS Natural Resources	0.8	19.3	22.5	30.0	22.1
DJ AIG Commodity	(1.4)	4.5	2.9	9.7	14.4

Domestic equity markets were down across the board in June. A series of selloffs pushed the S&P 500 and Russell 2000 down by 1.7% and 1.5%, respectively. Growth stocks held up a little better during the month as financial-heavy value indexes were hit harder by the subprime woes. The Russell 1000 Value fell 2.3% and the Russell 1000 Growth fell 1.5%. Year-to-date growth is also beating value. REITs were the biggest loser, as they were down 9.4% in June and down 6.0% for 2007 (they were up 14% at one point).

International equities did better than U.S. equities. In U.S. dollar terms, the MSCI EAFE index was up 0.1%, but the S&P/Citigroup index of international small caps fell by 1.0%. Surprisingly, emerging markets performed very well for the month. The MSCI Emerging Markets index rose 4.7% in U.S. dollar terms. This adds to the impressive run for emerging markets, having returned 45.0% for the last twelve months.

Alternative asset returns were mixed with the Goldman Sach's Natural Resources Index returning 0.8% and the DJ AIG Commodity Index down 1.4% respectively. The HFR Index, however, returned 1.1%.

There are a number of reasons that may give some insight as to why most markets were in the red after the up and down rollercoaster ride that was the month of June.

A rise in interest rates probably contributed to the sell-off. The yield on the 10-year bond crossed 5% for the first time since last summer. The yield on the 10-yr bond climbed as high as 5.25%, but eased back to 5.03% by month-end.

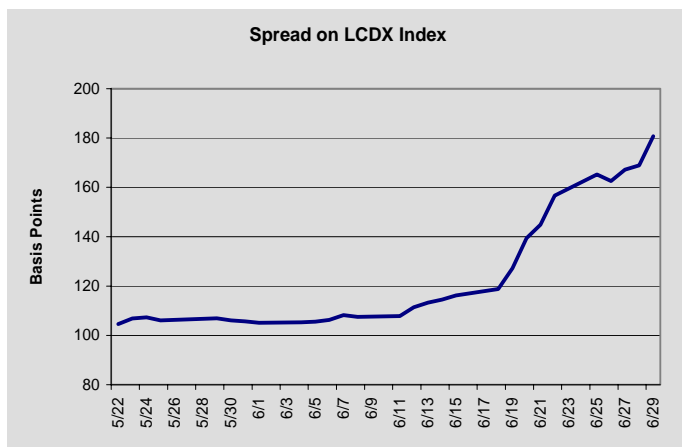
Another lingering problem is the continued decline of the housing market. According to The National Association of Realtors, the key home sales index slid to a 6-year low. Along with sales of homes being down, there is also an increasing abundance of homes on the market resulting in decreasing home prices. This index is meant to be forward looking, meaning there isn't much promise for the near future.

The Federal Reserve also met towards the end of June and, as many suspected, kept rates the same. What analysts found most encouraging about this meeting was that the language relating to core inflation changed, going from "elevated" concerns to "readings on core inflation have improved modestly in recent months." However, Fed Funds futures still suggest no rate cuts are forthcoming this year.

Another standout for this month was the widening of credit spreads. With credit spreads widening on top of higher risk-free interest rates, debt financing now becomes more expensive compared to recent history. If this continues, which many feel it is long overdue, business growth and development will more than likely begin to slow. In addition, the buyout space is sure to see a decrease in activity with the rising cost of debt. At the same time, new money going to buyouts has been drastically increasing over

the last several years and all that money has to go somewhere.

Others will see rising energy costs worldwide spurring higher inflation, and accompanied with a struggling housing market, tacked on to that is the fear that the days of cheap money will come to an end, removing support from global equity prices. A broadly diversified portfolio will help protect in case June is a sign of things to come, but also offer good returns should this month be just a blip on the radar screen.



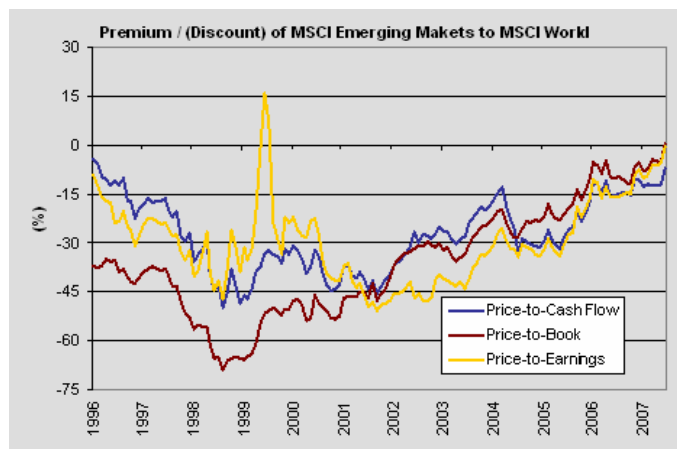
Source: Markit

As mentioned earlier, one of the standouts in terms of performance for June was emerging markets. They have continued their outstanding run of very high returns. However, based on the graph below, one would have to think that this run may be coming to a close. Looking back to early 2001, the discount to emerging markets has nearly disappeared when compared to the rest of the world markets.



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June sent a great deal of mixed signals, and depending on the investor, it can be taken many different ways. For some, it may be just a bump in the road; a repeat of late February from which the market bounced back rather quickly. They see an economy that has moderate growth, a healthy addition of new jobs, and possible easing by the Fed. Internationally, emerging market economies are continuing their strong run.