August 2013

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BANK AT HOME
PremierBank

Economic Growth Slow So Far but Looking to End the Year Strong

Recent Economic Indicators

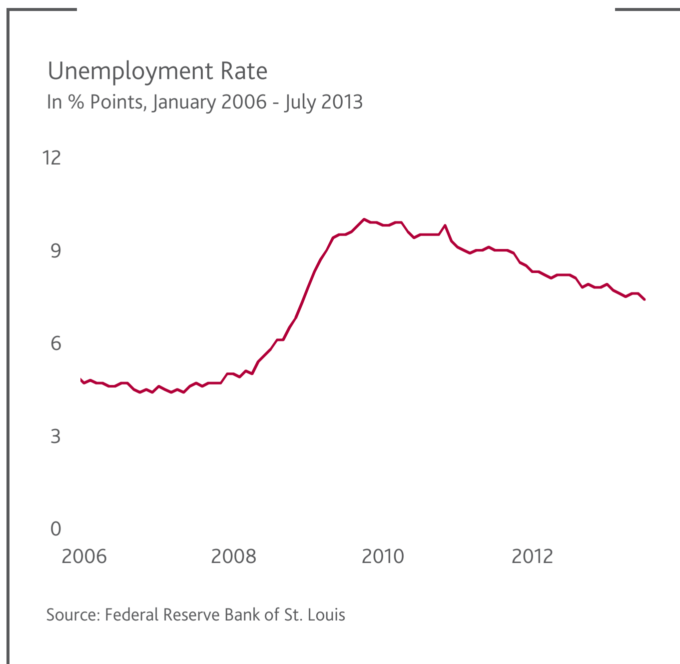
Indicator	Value
Thomson Reuters/Univ. of Michigan Consumer Sentiment	85.1
Consumer Confidence	80.3
Existing Home Sales, Monthly Change	-1.2%
New Home Sales, SAAR*	497,000
Personal Income, Monthly Change	0.3%
Personal Consumption Expenditures, Mo Chg	0.5%
Non-farm Payroll Increase/Decrease	162,000
Unemployment Rate	7.4%
ISM Non-Manufacturing Index	56
ISM Manufacturing Index (PMI)	55.4
New Durable Good Orders, Monthly Change	1.5%
Industrial Production, Monthly Change	0.3%
Capacity Utilization	77.8
Retail Sales, Monthly Change	0.4%
CPI, Monthly Change, NSA	0.2%
CPI Core, Monthly Change, NSA	0.1%
PPI, Monthly Change, NSA	0.0%
PPI Core, Monthly Change, NSA	0.1%
U.S. Trade Deficit	$34.2 Bil
Q1 2013 Non-farm Productivity, Qtrly Chg	0.5%
Q2 2013 Real GDP, Quarterly Change, SAAR*	1.7%

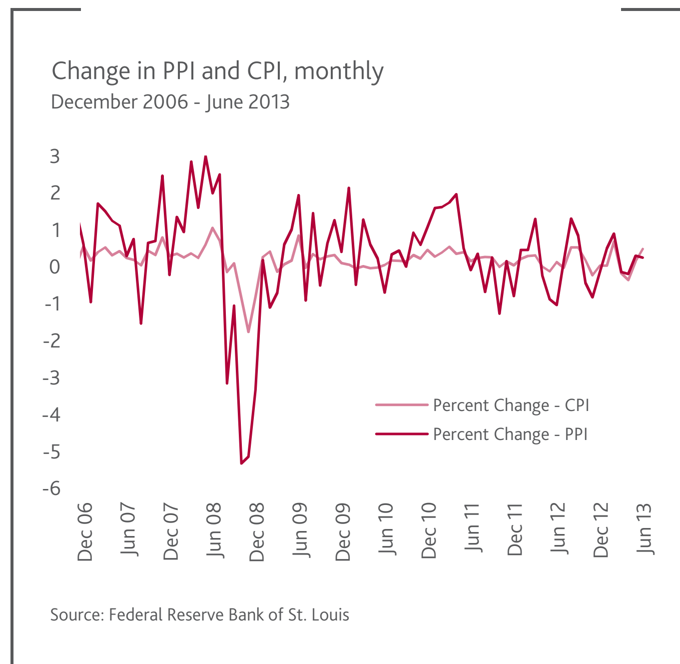
*Seasonally Adjusted Annual Rate
Values reflect most recent data available at the time of publication.
Source: Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, Federal Reserve, Thompson-Reuters University of Michigan, Institute for Supply Management, National Association of Realtors, The Conference Board, U.S. Census Bureau, Bloomberg.

Overview

The FOMC minutes released during the month reinforced the main points of the Fed's message that they will likely begin tapering QE in September if, and only if, the economy remains on a firm trajectory and that rate hikes are still a long way off. Fed Chairman Ben Bernanke gave a speech following the release of the minutes that repeated essentially the same message he gave three weeks prior, the only difference being the market reacted very positively this time. Essentially QE will slow down if the economy is doing well, and if the economy is doing well that's a good thing for risky assets; if the economy isn't doing well QE will continue and risky assets will be supported that way. It's the so-called "Bernanke put" and markets are finally getting it. The Fed's Beige Book report showed improved activity nationwide, painting a picture of modestly improving economic activity driven by the housing market recovery and steady consumer spending.

Second quarter GDP growth topped expectations coming in at 1.7%, but it was in part at the expense of first quarter GDP which was revised down to 1.1% from the previous estimate of 1.8%. Annual revisions also showed the 12 months leading up to April were weaker than previously reported. Federal budget cuts have been a drag on the economy, but consumer spending continued to increase during the second quarter. Business investment and the housing recovery were positive contributors as well. This was the first report using the new methodology from the Bureau of Economic Analysis that includes research and development and spending on the arts as business investments.





Employment

The number of Americans filing for first-time unemployment benefits fell 19,000 to a five-year low of 326,000 for the week ending August 1. Despite this decline payroll numbers for July came in slightly below expectations. According to the report only 162,000 jobs were added during the month while the consensus expectation from economists had been 175,000. Private payrolls accounted for all but 1,000 of the new jobs as government payrolls turned slightly positive. Federal employment is still in decline, but the seven-times-larger state & local employment has hooked up a little. The unemployment rate managed to tick down slightly to 7.4% partly because 37,000 Americans dropped out of the workforce. The report probably was not as strong as the Fed had hoped, but it is not likely weak enough to stall their plans to taper QE in September. August's employment report will be all the more important, but with initial claims looking like they will resume their downward trend and manufacturing activity picking up, it is so far looking like it might be a satisfactory number.

Consumer Confidence & Spending

Consumer confidence took a slight breather in July after climbing 22.4 points over the course of the previous three months. The Conference Board's index fell 1.8 points to 80.3 during the month, but still remains well above levels from last year. Despite the minor pullback the number still indicates that the economy is strengthening.

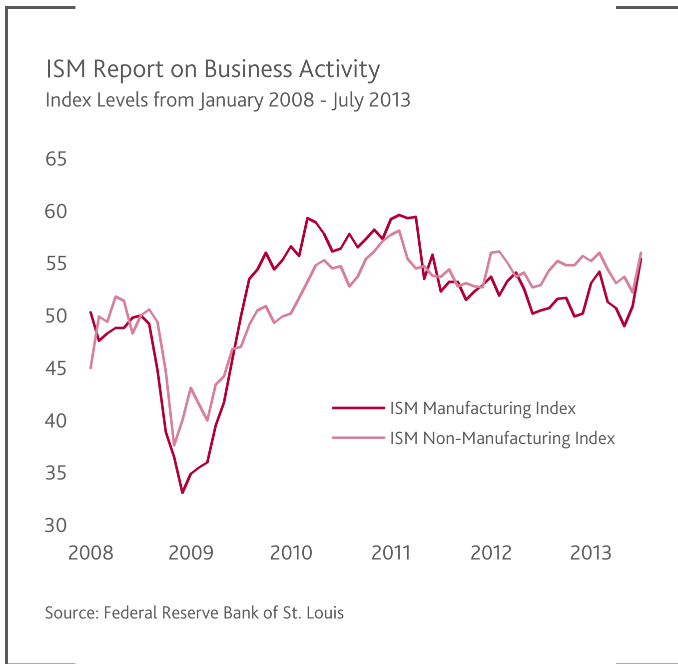
Retail sales for June rose less than expected, coming in at +0.4% versus the expected +0.8%. Demand for automobiles and higher gasoline prices lifted retail sales while sales of building materials fell by the most in a year.

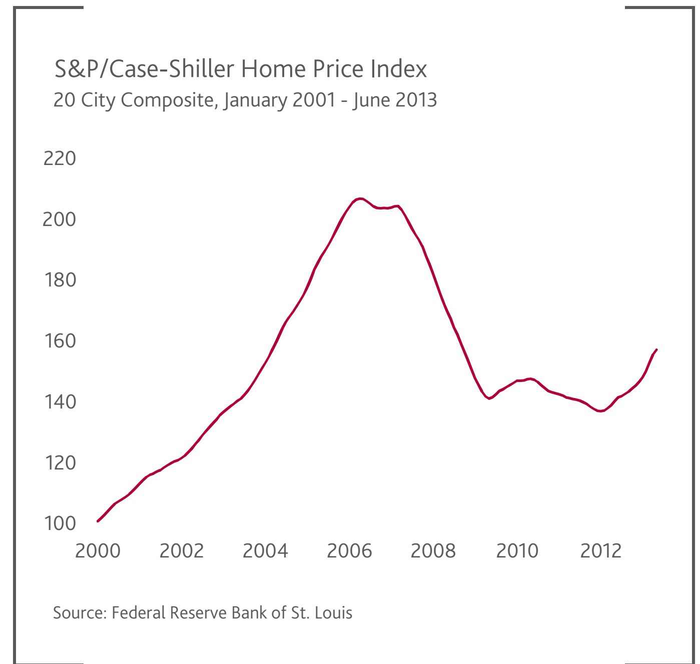
Inflation

Inflation heated up at the producer level in June, topping consensus estimates by 0.3%. PPI jumped 0.8% during the month following a half-percent rise in May. The increase was largely driven by energy prices which rose 2.9% with gasoline prices surging 7.2%. Excluding food and energy the core rate firmed 0.2% with a 0.8% increase in passenger cars being a major contributor. Year-over-year PPI is now running at 2.5%, up from 1.8% the previous month. Prices at the consumer level increased 0.5% in June, also driven higher by gasoline prices. Excluding food and energy, core inflation rose a more modest 0.2%. Over the past twelve months the overall Consumer Price Index has risen 1.8% and the core index rose just 1.6%. Inflation is still relatively tame, but the recent increases will give the Fed reason to continue arguing in favor of tapering QE.

Business Activity

Manufacturing showed considerable strength in July with the ISM's index jumping 4.5 points to 55.4. This was the strongest reading in over two years. New orders improved 6.5 points to 58.3, and the production reading surged 11.5 points to a recovery high of 65.0. Inventories were down, which given the gain in new orders should equate to expanding production in the months ahead. The much-larger service side of the economy also showed substantial improvement climbing 3.8 points to 56.0. This was the best reading since February, and the new orders component rose 7 points for its best reading since December. These are both very good reports and point to a reacceleration of economic growth for the third quarter.





Housing

The recent spike in mortgage rates resulted in a slowdown of sales for existing homes in June to an annual rate of 5.08 million, well below estimates of a 5.27 million rate and 1.2% below the previous month. Despite the slowdown, median prices continued to rise up 5.5% to $214,000. More sellers are coming to market with the supply up 0.2 months to 5.2, and they are staying on the market for a shorter period of time – 37 days in June vs. 41 in May. Meanwhile, new home sales came in better than expected, climbing 16,000 to an annual pace of 497,000, a new recovery high. The jump in sales may be attributed to buyers rushing to make a purchase in the face of rising mortgage rates. Supply in the new home market is extremely tight with only 3.9 months of inventory at the current sales rate. Here prices cooled a bit with the median new home going for 5.0% less in June than the previous month.

Looking ahead homebuilder sentiment continues to rise. The NAHB's housing market index trounced expectations for a second month in a row climbing five points to 57 in July after surging eight points the previous month. The strongest component in the report was future sales which clocked in at 67.

World Economy

The Eurozone manufacturing PMI has been trending higher over the past year and finally broke into expansion territory in July for the first time in 18 months suggesting that real GDP is improving in the struggling region. In contrast, the Chinese manufacturing PMI has hooked down and declined to 48.7% during the month. Differences in monetary policy with the ECB keeping rates low, while rates in China remain elevated, help to explain this decoupling. Additionally, the Chinese government showed its commitment to curbing wasteful government spending this month by putting a five-year ban on the construction of new office buildings for state-owned companies and Communist Party agencies. Slower growth in China puts downward pressure on commodity prices, which is a benefit to manufacturers in both the U.S. and Europe.

Most Major Fixed Income Markets Rally

Fixed Income Current Yields		7/31/2013
3 Month U.S. T-bill		0.04%
2 Year U.S. Treasury		0.35%
5 Year U.S. Treasury		1.49%
10 Year U.S. Treasury		2.74%
30 Year U.S. Treasury		3.77%
Total Returns	**1 Month**	**YTD**
Barclays U.S. Aggregate	0.14%	-2.31%
Barclays U.S. Govt./Credit	0.30%	-1.11%
Barclays U.S. Municipal Bond	-0.88%	-3.54%
Barclays U.S. Corp. High Yield	1.98%	3.44%
Barclays U.S. Long Credit A	0.85%	-7.22%
Barclays U.S. Treasury 20+ Year	-2.10%	-10.45%
Barclays Global Aggregate	1.26%	-3.63%
Barclays Emerging Markets	1.11%	-5.48%

1 Month and YTD data as of: 7/31/2013

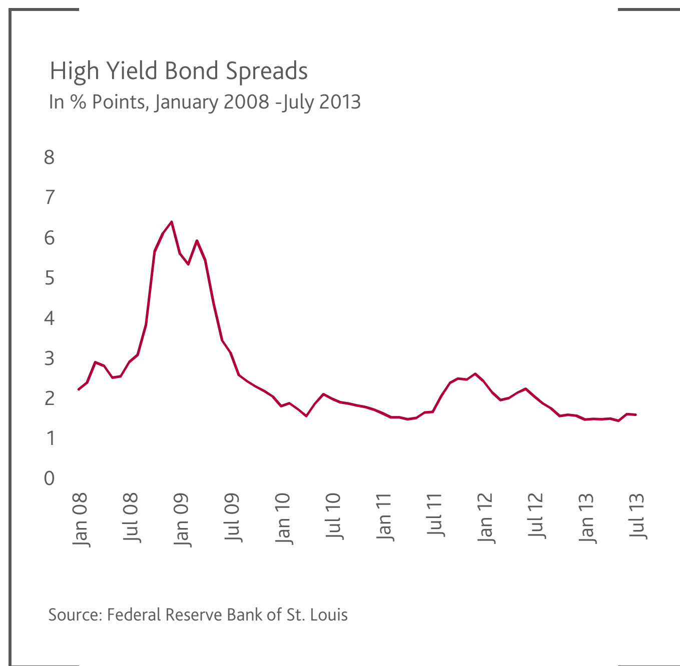
Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc., U.S. Department of the Treasury, Barclays Capital

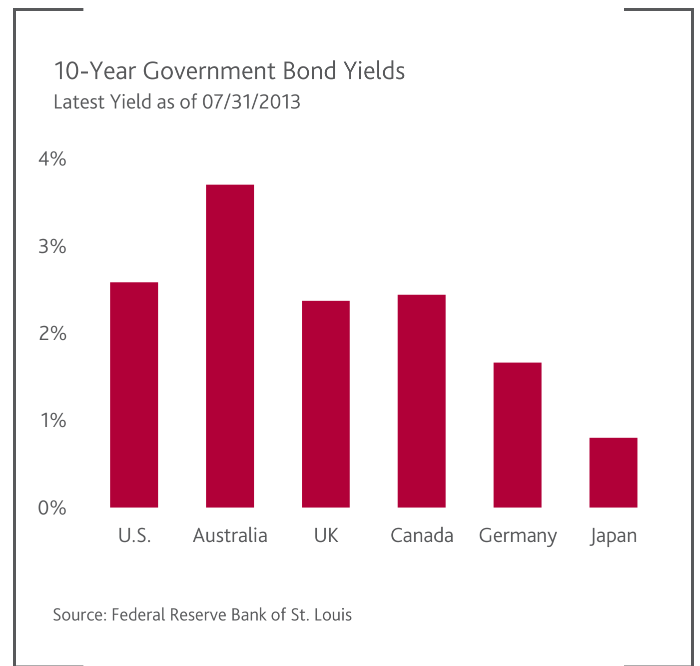
Overview

With the exception of U.S. Treasuries and municipal bonds, fixed income markets rallied as investors once again focused on the risk-on trade. Fed Chairman Bernanke reassured investors the central bank is not in a rush to taper its bond-buying program. Uncertainties remain however, as Federal Reserve Bank of Philadelphia president, Charles Plosser, said they should start reducing purchases by the end of September, with a goal of ending the program by the end of the year. Despite these mixed messages, most market participants expect the Fed to announce its plans to taper some time during the 4th quarter.

Separately, the Treasury announced they would begin selling in January floating rate debt whose yields change along with interest rates, a major shift in strategy driven by investor concerns about rising interest rates. Demand for floating rate securities sold by companies and banks has risen in recent months as investors sought protection from increasing yields. The Treasury said the initial floating rate notes would have a two-year maturity and plans to expand into other maturities. The yield will be set based on the most recent yield of the 13-week Treasury bill auction. U.S. money market funds, that are required to buy very short-term securities, will be one of the targeted audiences, according to strategists. "For some investors, the Treasury floating rate notes may eventually become a substitute for money funds invested only in Treasury bonds," said Alex Roever, head of short-term fixed income strategy at JPMorgan. "The notes will appeal to investors looking for a very high quality, liquid asset with limited interest rate risk."

Meanwhile, adding to investor anxieties, investors must now determine whether individual bonds or bond funds perform better in a rising rate environment. The advantage of an individual bond is that as its maturity shortens over time, its price becomes less sensitive to changes in yields, and barring default, the bond will mature at par. The advantage of a fund when yields rise is that rebalancing over time enables the proceeds to be reinvested in higher yielding securities. Most strategists feel the benefits of the individual bond usually





outweigh those of a fund, particularly for a passively managed platform targeting a particular maturity range. However, investors also ought to consider other factors. Another consideration includes the steepness of the yield curve, as the more positively sloped the curve, the bigger the yield pickup will be from extending maturities with rebalancing, suggesting funds will outperform in this environment. Finally, an active manager might be able to position their portfolios for a rise in yields. Still, under most circumstances, strategists like individual securities for intermediate and long-term holdings in a stronger rate setting, and funds or ETFs for short duration holdings.

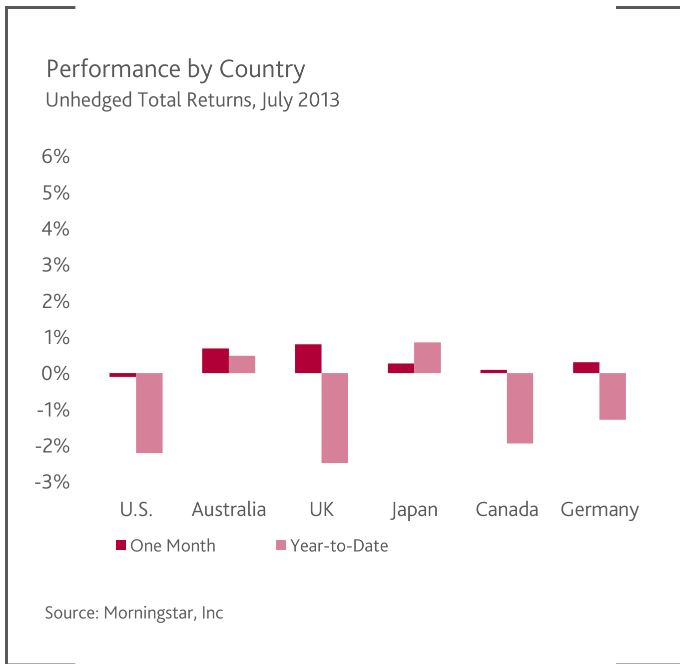
Corporate

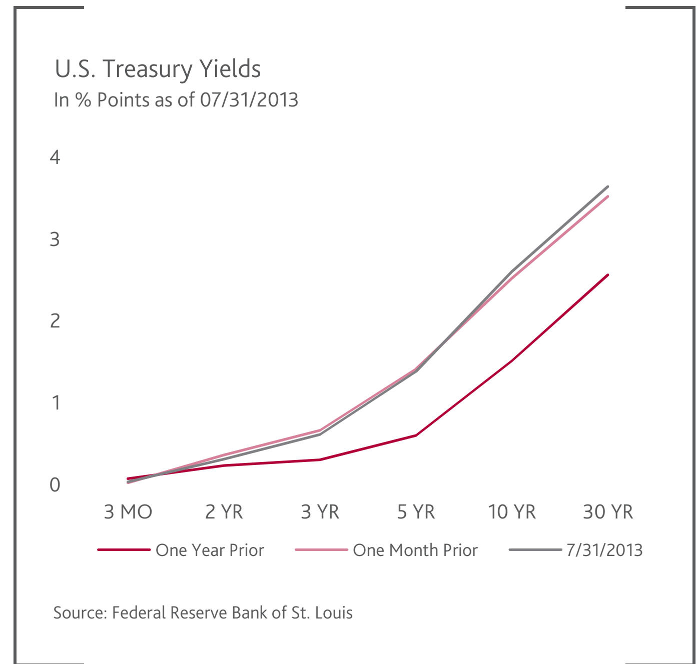
After a sharp sell-off in June, the investment grade corporate sector finished higher, gaining 0.83%, bringing year-to-date returns to -2.60%. While the index retraced much of its June loss, the move has not been uniform across sectors, with banks, metals and mining, and cable contributing the most to gains for the month. Although banks underperformed in the May-June sell-off, they remain one of our top sector picks. While spreads tightened sharply in the past several weeks, the difference in yields between banks and non-financials remains well above historical norms. Given continuing improvements in bank fundamentals, which were once again confirmed by strong second-quarter results, and the expectation for a decrease in the sector's volatility, many strategists continue to expect banks to outperform going forward.

High yield bonds rallied by 1.90% for the month, bringing year-to-date returns to 3.34%. Investors in this space have caused unusually high levels of volatility, with outflows from mutual funds of 6% in June and inflows of 5% in July. This volatility in flows has only been rivaled by events in the falls of 2011 and 2008, although not to the same magnitude. Meanwhile, market liquidity conditions, while unquestionably impaired against pre-crisis levels, are somewhat better today than most market participants feared, and noticeably better than in 2011. Actual measures of liquidity, such as bid-ask spreads and trading volumes, have moved wider and lower respectively, but well short of 2011 levels. Having learned from past sell-offs, mutual fund managers in this space now hold increased cash balances and liquid bonds in times of market duress, creating buffers necessary for this market to operate properly. Going forward, strategists continue to expect declines in this market should interest rates rise by a significant level, but still expect a modest 4% total return over the next 12 months. Given these expectations, floating rate notes look more attractive with about the same level of expected returns with a fraction of the volatility of high yield bonds.

Municipals

After losses of 1.22% last month, the Barclays Municipal Bond index fell again losing 0.88%, brining year-to-date gains to -3.54%. Municipal bonds have sold off more severely than the rest of the market on credit concerns raised by a bankruptcy in Detroit. Meanwhile, the trend in municipal bond fund and ETF outflows continued, with investors redeeming from $1 billion to $1.5 billion weekly. Many strategists feel the selling pressure is creating an opportunity in munis. However, concerns over how Detroit bondholders will be treated in bankruptcy makes it difficult to know when the bond fund hemorrhaging will stop. On a positive note, traders are starting to see cross-over buyers stepping into the market. These are insurance companies and hedge funds who only participate in the muni market when they can buy munis at levels more attractive than their taxable alternatives. At the same time, with rates having risen 1.00% to 1.50% on the AAA scale, the market is seeing the supply side tighten as new deals become economically unfeasible to refinance. Going forward, we believe the two biggest risks to the muni market include mutual fund flows/ETF redemptions and the market's reaction to potential QE tapering. Despite all of the headwinds against munis, we still believe there is a significant opportunity to capture attractive long-term returns as long as the investment horizon is over the next two to three years, not the next two to three months.





International

The Barclay's Global Treasury ex-US index returned 1.87% on an unhedged basis, but just 0.48% on a local currency basis, consistent with a stronger U.S. dollar against other major currencies. Most major country government and peripheral bonds posted gains, with Italy, Ireland, Spain and Slovenia outperforming as investors transitioned back into the risk-on trade.

As expected, the ECB announced its forward guidance with its intention to keep rates "at current or lower levels for an extended period." At the same time, the Bank of England stated it did not judge the increase in short-term rates that occurred in June to be consistent with the country's macro outlook, preannouncing its intention to implement some form of guidance in August or September. Japan continued to implement its large bond purchase program it announced in April, while also tackling the initial operational issues that generated volatility in the JGB market. Finally, spreads on Portuguese government bonds tightened as political uncertainty in this country diminished. However, given the uncertainty over Portugal's ability to fulfill the requirements of the IMF/EU/ECB lending programs, the scope for another rally may be limited.

Detroit Bankruptcy

This month, Detroit became the largest city in U.S. history to file for bankruptcy, as the state-appointed emergency manager filed for Chapter 9 protection. The filing is a direct result of a lack of progress in restructuring approximately $11 billion of the city's $18 billion in debt from unsecured creditors. Kevyn Orr, the state-appointed emergency fiscal manager, warned in May that the city might run out of cash. His proposal to restructure the city's debt included cutting pension payments, ending cost-of-living increases and removing some workers from the system. Orr was unable to convince creditors, the city's union and pension boards to accept cuts to help facilitate his financial restructuring plan. Holders of general obligation bonds insist their claims are backed by the city's taxation powers, while pension fund holders believe their rights are constitutionally protected.

Meanwhile, Detroit's last five debt offerings were done on a secured basis, suggesting investors were nervous of the city's finances. Looking forward, some strategists feel this bankruptcy has the potential to be precedent setting, as investors reconsider the general obligation pledge and what it really means when an issuer is under financial duress. Ultimately, we feel other municipalities will not follow Detroit's lead into bankruptcy, but this experience should make investors pay more attention to the quality of local general obligation bonds.

Stocks Recover in July

Total Returns	1 Month	YTD
Dow Jones Industrial Average	4.12%	19.95%
S&P 500	5.09%	19.62%
NASDAQ Composite	6.63%	20.95%
S&P 100	4.99%	18.36%
S&P 400 MidCap	6.20%	21.69%
S&P 600 SmallCap	6.84%	24.15%
Russell 2000	7.00%	23.97%
MSCI EAFE	5.28%	9.99%
MSCI EAFE Small Cap	6.08%	12.37%
MSCI Emerging Markets	1.10%	-8.40%

1 Month and YTD data as of: 7/31/2013

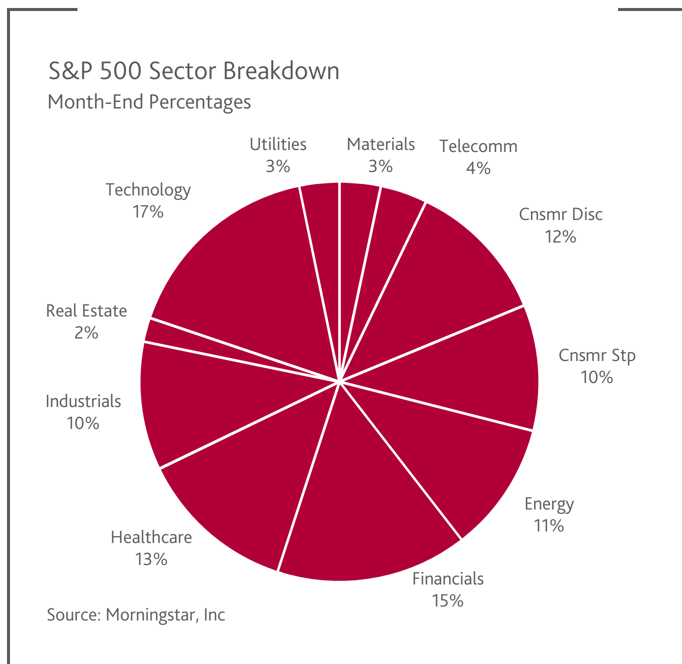
Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc.

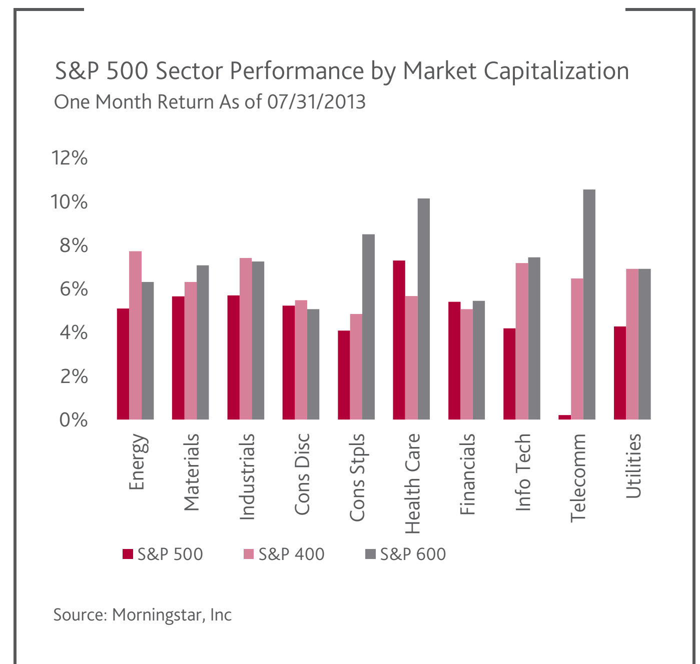
Overview

Major U. S stock markets rallied back in July after small declines in June. Investors' fears about the timing of the end of the Fed's quantitative easing program, mostly positive economic data in the US, and solid earnings reports led to the strong performance. Stocks were positive in each week of the month. Federal Reserve Chairman Ben Bernanke calmed investors' fears by proclaiming in a speech to Congress that monetary policy would remain highly accommodative, even though the Fed may start to scale back on its bond buying program later this year.

The total return for both the Dow Jones Industrial Average in July was 4.1% with the index closing at 15499.54 after reaching an intra-day record high on the last day of the month. The broader S&P 500 Index had a return of 5.1%, finishing at 1685.73. The NASDAQ Composite Index ended the month at 3626.37, posting the best return of the three major indices at 6.6%, and its highest monthly return since January 2012. Year-to-date through the end of June, the indices returned 20.0%, 19.6%, and 21.0% respectively.

Through the week ending August 2nd, nearly 80% of S&P 500 companies had reported quarterly earnings with 74% of those companies posting a positive surprise, on average of 3%, according to Bloomberg. Financial firms have reported the highest surprise, while energy companies have trailed expectations the most. Thompson Reuters reports that if all remaining companies report in-line with their estimates, S&P corporate earnings will be up 4.3% from last year's second quarter.





Domestic Equity

S&P Sectors that were the strongest in July included HealthCare (+7.3%), Materials (+5.7%) and Industrials (+5.7%). Health Care names that rose on earnings strength included Celgene (+25.5%), Gilead (+19.8%) and St. Jude Medical (+14.8%). Air Products (+18.6%) within the Materials sector reported strong earnings but also rallied on rumors it could be an acquisition target. Lagging the index were the more defensive sectors such as Telecomm Services (+0.2%) and Consumer Staples (+4.1%) as dividends were out of favor. Information Technology (+4.2%) also trailed the benchmark as several significant tech companies missed earnings expectations and performed poorly in the month. Year-to-date through the end of last month Health Care (+29.0%) led all sectors, followed closely by Consumer Discretionary and Financials, both with total returns of 26.0%. The Materials (+8.7%) sector lagged far behind the benchmark in the first seven months of 2013, as did Information Technology and Telecomm Services, both up only 10.8%. While Apple rose 14.1% in July, its 20% year-to-date decline and significant weighting in IT led to the sector's relative underperformance.

According to Standard & Poor's, small cap equities outperformed both mid cap and large cap equities in July. The Small Cap 600 Index had a return of 6.8%, better than the returns for both the S&P MidCap 400 Index (+6.2%) and the S&P 500 Index (+5.1%). Year-to-date, small cap equity (+24.2%) returns were higher than both mid-cap (21.7%) and large cap (+19.6%).

Large cap growth and value stocks performed in line in July while small cap growth (+7.3%) outpaced small cap value (+6.5%). In the mid cap space, value outperformed growth (+6.3% vs. +6.2%). Small cap growth stocks posted the strongest returns year-to-date (+24.2%) through the end of July, while large cap growth equities lagged (+17.7%).

International Equity

Developed international equity indices were also quite strong in July as the MSCI EAFE Index of developed markets returned 5.3% in U.S. dollar terms. All markets posted positive returns led by southern European countries such as Spain (+12.9%), Greece (+11.6%) and Italy (+10.3%). In fact, European equities had their best monthly performance since October 2011. France (+9.1%) led the major developed markets, while Japan was only slightly positive (+0.6%). Year-to-date through the end of July, the developed markets index posted a positive return of 10.0%. The MSCI country index for Japan continued to lead all returns (+17.3%), while other major markets such as France (13.6%) and Germany (+10.4%) were also ahead of the benchmark. The UK (+6.9%) has lagged the index all year.

The MSCI Index for Emerging Markets was positive in July after two months of declines, posting a 1.1% total return. Country indices in Egypt (+12.1%), China (+4.1%), Korea (+3.7%), and Russia (+3.4%) outperformed, while Brazil (-1.5%) continued to be weak. Egypt saw the overthrow of President Mohammed Morsi, but the violence that ensued did not appear to rattle stocks. China was positive despite reports that GDP growth appeared to slow again. Late in the month, the Chinese government announced it would take actions to ensure economic growth does not fall below 7%. Through the first seven months of 2013, the emerging markets index was down 8.4%. Concerns about slowing global economic growth have caused investors to focus on strength in developed markets, especially the U.S., at the expense of developing market stocks.

Commodities and Hedge Funds Gain Strength

Price Change	1 Month	YTD
Dow Jones UBS Commodity Index	1.15%	-9.78%
Oil	9.07%	14.45%
Copper	1.96%	-13.17%
Gold	7.30%	-21.65%
NAREIT-All REITs	0.53%	5.97%
NAREIT-Industrial/Office	2.10%	7.46%
NAREIT-Residential	-1.20%	4.06%
S&P Global Property Ex-US	0.90%	0.24%
HFRI Emerging Markets Index	0.70%	0.42%
HFRI Fund Wtd Comp. Index	1.36%	4.73%
HFRI Equity Market Neutral	0.61%	3.40%
HFRI Event Driven	1.54%	7.02%
HFRI Market Defensive	-0.63%	-0.80%
HFRI Merger Arbitrage	0.98%	2.47%
HFRI Short Bias	-2.87%	-12.65%

1 Month and YTD data as of: 7/31/2013

Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc.

Overview

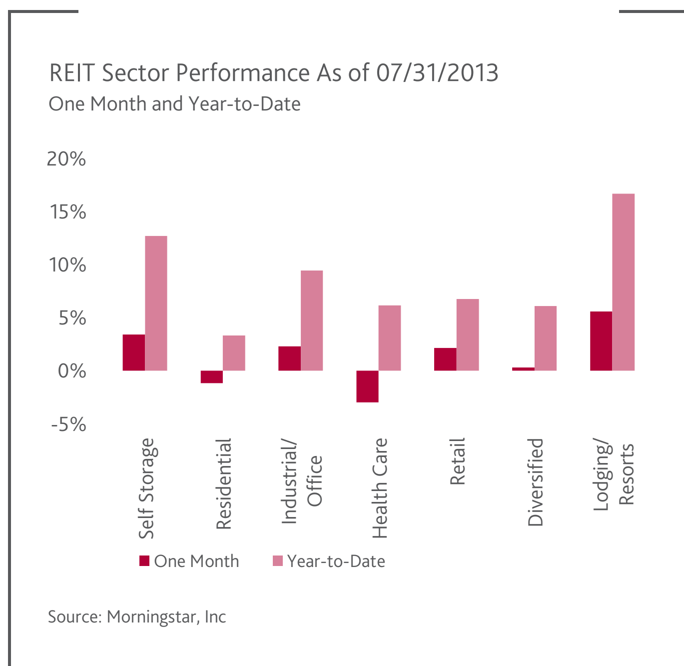
Hedge funds posted their best numbers since the beginning of the year in July, while REITs managed to escape the month in the black as well. Commodities marked a strong comeback after a long downtrend but are still significantly under-performing other asset classes this year.

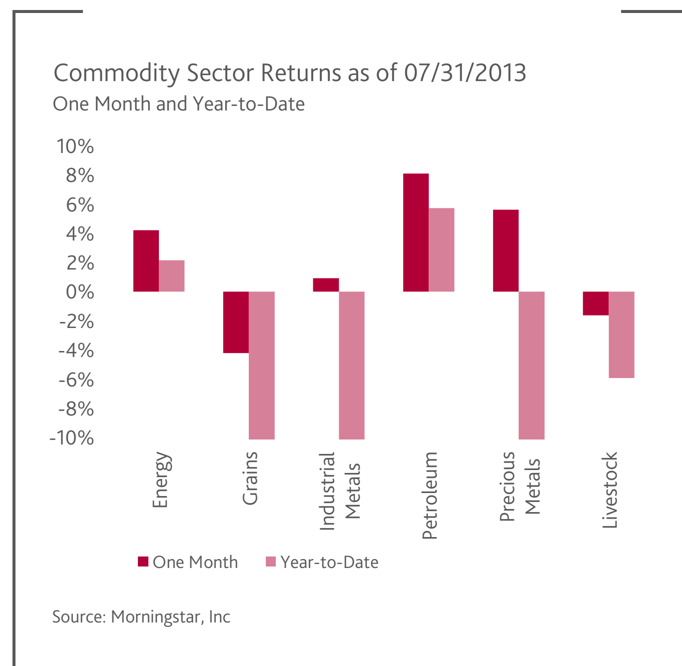
Commodities

Commodities recovered in July after an extended losing streak that resulted in the Dow Jones UBS Commodity total return index returning -9.45% in the second quarter and -10.47% for the first half of 2013. The index gained 1.36% in July, now marking a -9.25% return year-to-date. Last month brought continued strength in the oil market, as well as a sharp recovery for precious metals, amid mixed results for agricultural components of the index.

West Texas Intermediate Crude gained as much as 9% in July as events in the Middle East and the U.S. Federal Reserve moved financial markets and oil prices. Libya closed many of its oil terminals as protests rocked the country. This political unrest could potentially result in as much as an 80% decrease in oil capacity. Libya is not a driving force in the world oil market, especially as political clashes have curbed production efficiency, however OPEC nations can easily make up the supply shortage if they decide to take action. The Federal Reserve has renewed its vow to continue its bond purchasing program, an announcement that caused WTI futures to climb 2.1%. Another factor in the continued WTI price surge is oil stockpiles at the primary U.S. storage facility in Cushing, Oklahoma. Last month oil inventories dropped by nearly 2 million barrels to 42.1 million, the lowest level since April of 2012.

Gold prices reversed direction in July with a gain of over 7% after a -23% return in the second quarter of 2013. This bounce-back followed a minor recovery of major global currencies against the U.S. dollar, and was also sparked by a lack of action by the Federal Reserve concerning the potential reduction of quantitative easing.





Unfavorable economic reports in the U.S. aided weakening of the dollar and the bump in gold prices; these reports included housing starts and non-farm payrolls. Upcoming Federal Reserve announcements concerning the tapering of quantitative easing will certainly be a factor in gold prices for the remainder of the year, as will the relative strength of the U.S. dollar versus other major currencies.

Hedge Funds

Hedge funds enjoyed broadly positive returns in July, according to Hedge Fund Research (HFR), as most strategies reversed losses from the prior month on strong earnings, acceleration of M&A activity, moderating concerns of a sharp rise in interest rates and receding macro risks. The HFRI Fund Weighted Composite Index rose 1.36% last month, the highest monthly performance since January, and is up 4.73% on the year. The HFRI Equity Hedge Index led strategy performance last month, gaining 2.5%. Equity Hedge gains were broad based across sub-strategies. The strongest returns were posted by technology and healthcare funds, which rose an average of 4.04% in July, the best monthly performance since September 2010, and up 12.37% on the year. Event Driven strategies also posted gains last month, as the HFRI Event Driven Index finished up 1.5%, reversing the 1.1% loss in June. Fixed Income-based Relative Value strategies were also positive in July, as high yield credit tightened and concerns about a sharp rise in interest rates associated with a near term extraction of stimulus measures by the U.S. Federal Reserve subsided. Commodity-focused hedge funds struggled last month, recording their sixth consecutive month of losses, for a year-to-date decline of 4.3%. Emerging market hedge funds, whose returns plunged in June, recorded gains of 1.34% in July.

In sharp contrast to the volatile, risk-off sentiment of the prior month, HFR president Kenneth Heinz noted hedge fund performance in July was driven by "a positive tone to earnings season and a dynamic environment for M&A including strategic transactions, shareholder activist and special situations exposure, contributing to a favorable operating environment for long/short strategies." Heinz mentioned that while many managers continue to position for a gradual extraction of stimulus measures by the Fed and correspondingly rising bond yields, "fundamentally-driven, valuation-oriented strategies produced strong results in July as risk-off sentiment moderated from the prior month and investor risk tolerance continued to normalize."

REITs

U.S. equity real estate investment trust (REIT) stocks were up 6.7% for the year through the end of July, but it marked the third consecutive month in which REITs trailed the broader market. Analysts point to a rise in interest rates as the likely culprit. The U.S. Equity REIT market delivered total returns of 0.83% last month, according to data from NAREIT. The S&P 500 was up 5.09% for the month. The FTSE NAREIT All REIT Index gained 0.53% last month, bringing year-to-date total returns to 5.97%. Analysts believe that general investors are not going to have a good feeling about commercial real estate and deploying capital into REIT stocks if they feel that interest rates are going to move higher over the near term. Brad Case, NAREIT's senior vice president of research and industry information, believes it's important for investors to realize that rising interest rates doesn't necessarily mean the economy is doomed. He points out that when interest rates rise, it's because the economy is strengthening and that's what we're seeing now. In the mid-1990's and the early part of the last decade, "what we've seen is that REIT returns have been very strong during those periods where interest rates were rising because the economy is strengthening."

In terms of performance by property sectors and subsectors, the lodging sector led the way, posting total returns of 5.56% for the month, while the self-storage sector gained 3.40%, according to the FTSE NAREIT U.S. REIT Index. Retail REITs, composed of Shopping Centers and Regional Malls, were up 2.13% in July, bringing their year-to-date gains to 6.74. Longer-duration assets, like REITs in the healthcare sector, were hit hard last month, losing 3%.

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