Ashdon Investment Management

Q2 2014 ECONOMIC COMMENTARY

July 2014

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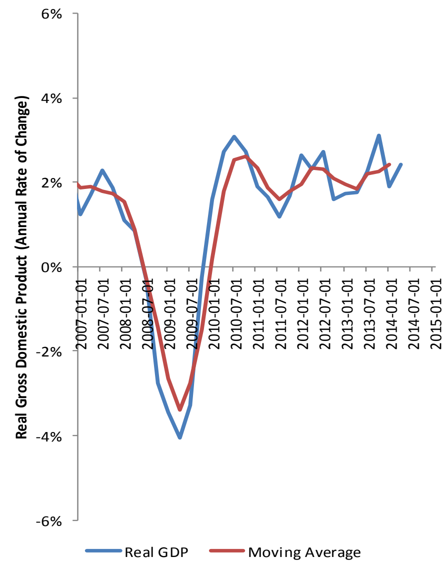
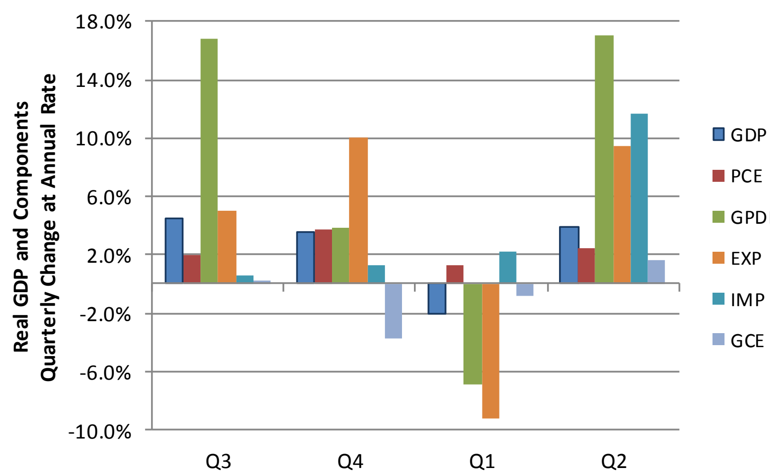
Second Quarter 2014 Economic Commentary

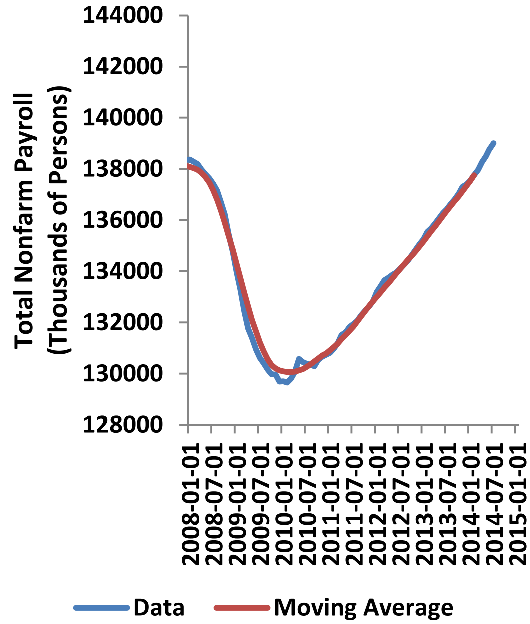
For Q2 commentary we will offer a brief comment on the progress of the US economy for the quarter.

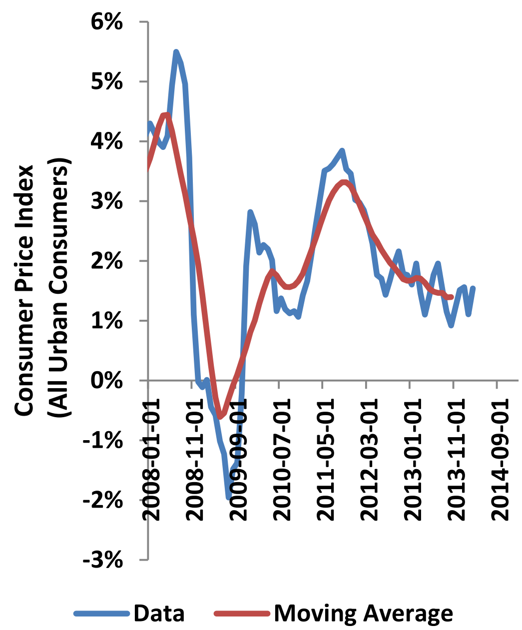
While labor markets continued to improve and inflation remained muted, the first quarter GDP final release demonstrated how deep the slowdown had actually been. As we anticipated last quarter, the revisions took GDP down to -2.9% (annualized) – far below the estimates of revision. Sector level data suggest that the economic slowdown was broad. Formally robustly growing sectors like the residential and non-residential construction spending and equipment investments were detractors during the quarter. Government consumption weakness continued as expected. Finally, declines in exports detracted from growth. Personal consumption continued to grow, offsetting weakness in the other economic sectors. As the year evolves, emerging data hint at a robust recovery from the unexpectedly weak Q1 print. In fact, the chart below shows the trend in GDP over time since the recovery including the advance release data - a 4% (annualized) rebound. The "down in Q1, up in Q2" pattern is characteristic of the current recovery.





The employment situation continues to improve. The chart below, updated through July 2014, shows the persistent growth of total payroll since 2009. The employment situation remains mixed. The number of workers unable to find jobs remains stubbornly high. However, reports of emerging tightness in segments of the labor market point toward real improvement in the economy. Through this recovery, inflation has remained very low in spite of the supply of liquidity from central banks. This is in part due to restrained wage growth – a very complicated macroeconomic matter. While signs of labor tightness point to increasing real wages, and perhaps inflation, inflationary pressure are not yet evident in the usual measures (such as CPI – chart below) which continues to trend lower.





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