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Economics Weekly
The Path of Least Resistance for Yields Is Still Higher

In attempting to avert a growing problem in the Treasury bond market (i.e., rising bond yields heading into the midterm elections), Treasury Secretary Bessent may have inadvertently helped shine an unwanted spotlight on why those rates are rising in the first place. Secretary Bessent seems to believe that the path of least resistance for yields is higher. If he didn't, why bother intervening to suppress yields? **In this *Economics Weekly*, we discuss what factors are driving yields higher and the historical response from policymakers.**

Why Now? What's Changed?

For at least the last few decades, barely a day has gone by when there hasn't been a story in the financial press about the dangers of an impending U.S. debt crisis. Yet every time those concerns emerged, Treasury yields ultimately remained low, inflation moderated, and the government ended up borrowing even more money than it had before.

While we do not think this time is different nor that this will be the start of a major U.S. debt crisis, we recognize that several things have changed in recent years—enough to suggest that the path of least resistance for rates is still higher than where they are today.

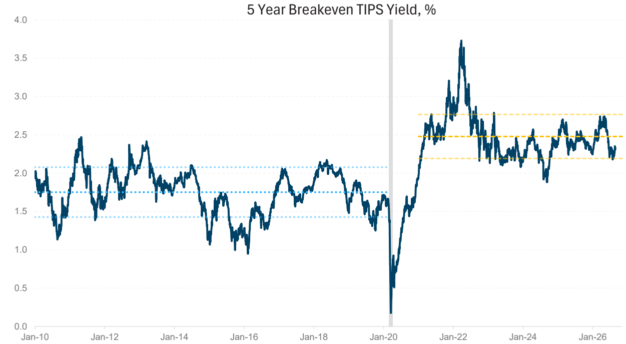
Treasury Secretary Bessent's indicated preference suggests that he thinks the same; otherwise, why bother 1) intervening in the Japanese currency market (by selling euros to buy yen) to prevent downside pressure on Treasurys; 2) "at least" doubling the size of the Treasury buyback program to twist the yield curve; and 3) mentioning that the Treasury is considering using the government's checking account held at the Fed (the Treasury General Account, or TGA) to buy more bonds?

Below, we list five factors that have changed in recent years and that we believe suggest rates will remain higher for longer and that in the near term likely have further room to rise.

1. Inflation Regime Change

The latest rise in yields is seemingly not being driven by rising inflationary expectations, but rather because the inflation regime has changed, as we have been pointing out for several years now. This is a strong part of the higher-for-longer narrative (exhibit 1).

Exhibit 1
Inflation Expectations Over the Next 5 Years
5 Year Breakeven TIPS Yield, %



Sources: Bloomberg, William Blair Equity Research

The regime change is a result of the reintroduction of supply-side frictions that did not exist prior to the pandemic. These include a structurally tight labor market due to aging populations and immigration restrictions; the end of globalization, the shredding of trade agreements, and the reintroduction of tariffs; the adverse impact from climate change, including more floods, droughts, fires, etc., and this year's El Niño; and geopolitical events, such as wars, which are disrupting global trade routes. All of these factors are helping to prevent the aggregate rate of inflation from decelerating to its pre-COVID trend.

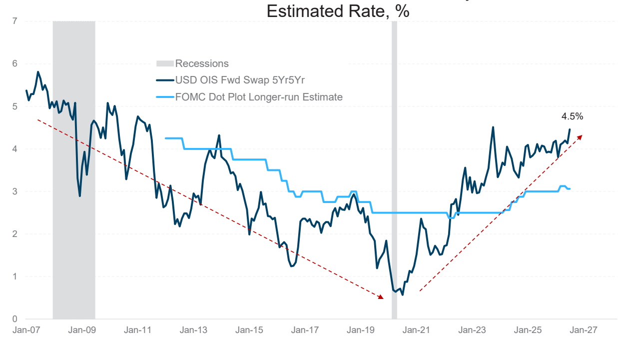
These supply-side developments are also being accompanied by an acceleration in growth from demand-side, due to a strong capex cycle and a resilient consumer.

2. A Higher R-Star

Not all the reasons for higher yields are negative. Over the last few years, real potential GDP growth has been rising as we have moved away from secular stagnation following the pandemic. Growth is improving on the back of the ongoing innovation wave related to AI and other forms of post-pandemic capital deepening. The strength is also being driven by what seems to be a structurally larger budget deficit, which is now stuck at 6% of GDP.

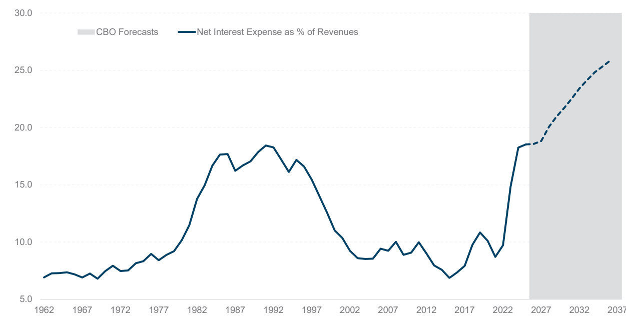
These shifts are reflected in an increase in just about all proxy measures of nominal and real r-star. Exhibit 2, for example, shows two such measures—the market's estimated neutral rate and the Fed's estimated rate. Both imply that a higher trend level of interest rates is required to maintain stable growth and inflation.

Exhibit 2
Market Estimated Neutral Rate for the Economy vs the Fed's Estimated Rate, %



Sources: Bloomberg, Federal Reserve, William Blair Equity Research

Exhibit 4
U.S. Net Interest Expense as % of Revenues



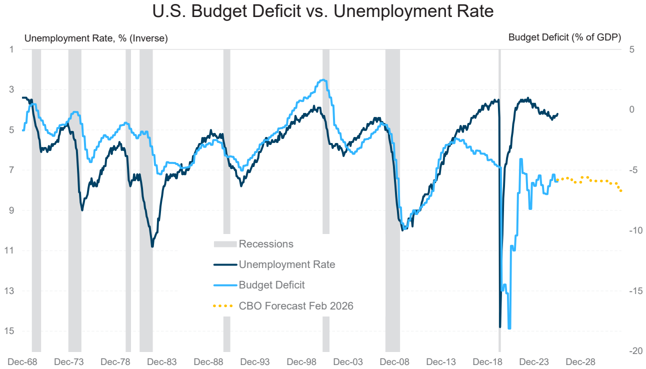
Sources: Congressional Budget Office, William Blair Equity Research

3. The Debt Situation

6% Deficit for as Far as the Eye Can See

If 6% budget deficits are the new norm, as the CBO's forecasts suggest, this rate goes far beyond what is required from a cyclical perspective (exhibit 3).

Exhibit 3
U.S. Budget Deficit vs. Unemployment Rate



Sources: Congressional Budget Office, Bureau of Labor Statistics, William Blair Equity Research

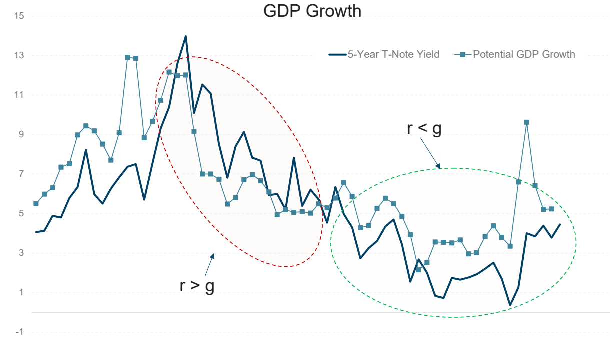
Rising Net Interest Expense

Net interest expense as a share of total government revenues is now the highest it has been since the early 1960s. Under current legislation, the CBO projects these interest costs to increase further to 25% of total revenue in the next 10 years. To reduce these costs, Secretaries Yellen and Bessent have been introducing and increasing the Treasury buyback programs in order to twist the yield curve toward more short-term, lower-interest-rate debt.

R Is Still Less Than G

From the late 1990s to today, r (the interest rate on that debt) has been less than g (the growth rate of the economy), and as such, the cost has been manageable (exhibit 5). This was not always the case. Through the high-inflation and high-spending 1980s and early 1990s, r was greater than g, and it was only through a focused approach by the Fed and the Clinton administration to bring down inflation and government deficits, in addition to other supply-side developments (e.g., globalization and China's entry to the WTO), that r moved sustainably back below g. Today, given the forecast in exhibit 4, there is very little room for growth to disappoint before r rises back above g.

Exhibit 5
5-Year T-Note Yield on Federal Government Debt vs Nominal Potential GDP Growth

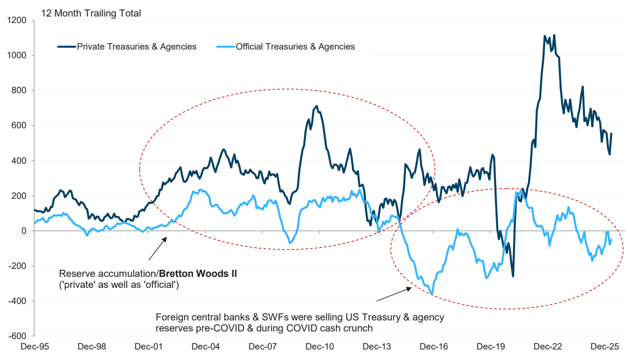


Sources: Bureau of Economic Analysis, CBO, William Blair Equity Research

Fewer Price-Insensitive Buyers

Meanwhile, over the last 10 years, there has been a tangible shift in the buyers of U.S. Treasury. As exhibit 6 shows, we have moved away from the Bretton Woods II arrangement, whereby foreign central banks (mainly China) were rapidly accumulating U.S. dollar assets in order to depreciate their currencies and increase their export shares of growth. Now, the main buyers of Treasurys are private institutions and U.S. households, and in contrast to foreign governments, they are purchasing the debt more for yield, as opposed to the price-insensitive central banks. Japan is the latest of these large holders to start paring back on its large holdings of Treasurys.

Exhibit 6
Foreign Net Purchases of US Treasury Notes & Bonds, and Agency Securities

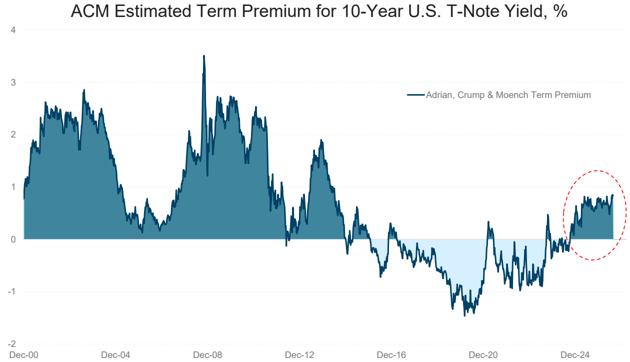


Source: Treasury International Capital, William Blair Equity Research

Inflation and Geopolitical Risk Pushing Term Premium Higher

As long as investors believed that equities were negatively correlated to bonds, that inflation was likely to remain low over the longer term, and that fiscal policy would revert to a more sustainable footing at some point in the future, they were happy to pay a negative term premium. Since 2020, however, the term premium has turned positive again, and investors are increasingly starting to demand some compensation for taking on duration risk. This has been another factor pushing yields sustainably higher (exhibit 7).

Exhibit 7
ACM Estimated Term Premium for 10-Year U.S. T-Note Yield, %

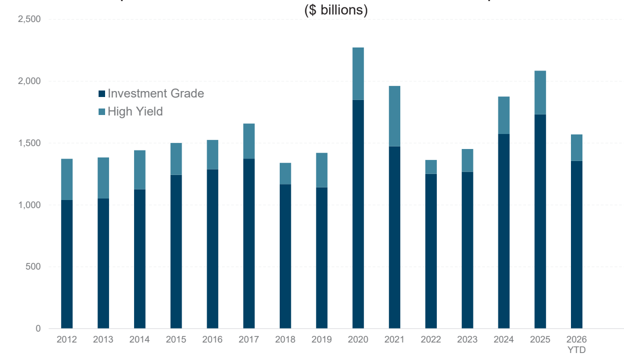


Sources: Bloomberg, William Blair Equity Research

4. Corporate Debt and Equity Crowding Out Buyers

Total corporate debt increased by 42.9% in the second quarter and year-to-date it is 26.9% higher than in 2025. If that run-rate continues, issuance could amount to $2.8 trillion this year. This quarterly increase is the fastest pace of debt issuance since the 2020 pandemic boom, with the hyperscalers now turning to the fixed income markets to help fund their data center expansions (exhibit 8).

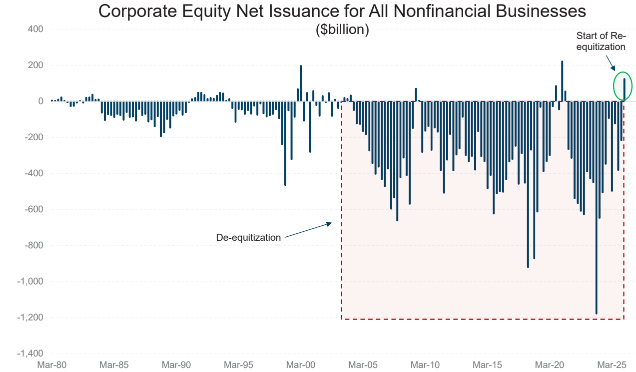
Exhibit 8
U.S. Corporate Bond Issuance: Investment Grade and Speculative Grade
($ billions)



Sources: SIFMA, William Blair Equity Research

Meanwhile, after two decades of steady de-equitization—brought on by companies post-Dodd Frank issuing fewer equities, increased buybacks, and rapid expansion in private equity—we may be at the start of a re-equitization cycle (exhibit 9). While the AI boom has largely been privately funded and is now being supplemented by debt issuance, corporate equity issuance is increasing as regulation is coming down, the private equity boom looks increasingly tired, and companies are increasingly finding investors keen to take on more public equity. The rise in debt and equity issuance from the corporate sector is increasing the yield on these investments as well as the competition for Treasury securities.

Exhibit 9
Corporate Equity Net Issuance for All Nonfinancial Businesses
($billion)



Sources: Federal Reserve, William Blair Equity Research

5. A Less Reliable Fed

Lastly, as we discussed here several weeks ago, under the new Warsh regime, the Fed seems to be much keener to step away from its past role in helping to suppress Treasury yields via balance sheet expansion. It appears to prefer a more laissez-faire approach, where the market has a greater say in the appropriate level of interest rates. Warsh feels that the Fed has been over-manipulating financial markets, which has limited price discovery and dulled the signals that the Fed should be getting from the bond market. We will potentially get further news on these views later today with Chair Warsh's speech at the Fed's Jackson Hole Symposium.

The latest moves by Secretary Bessent, however, suggest that the Treasury might be prepared to pick up the baton from where the Fed leaves off and to take a more activist approach to yield management—one that was previously heavily criticized when it was being conducted by Treasury Secretary Yellen.

Conclusion

The balance of risks still points to yields remaining elevated and some near-term room for further appreciation. While we do not believe that a debt crisis is imminent, we have to recognize that the backdrop for yields has changed—inflation is increasingly supply-constrained, r-star has moved higher due to innovation, deficits look structurally larger, interest costs are rising, and the investor base for Treasurys is less dominated by price-insensitive buyers.

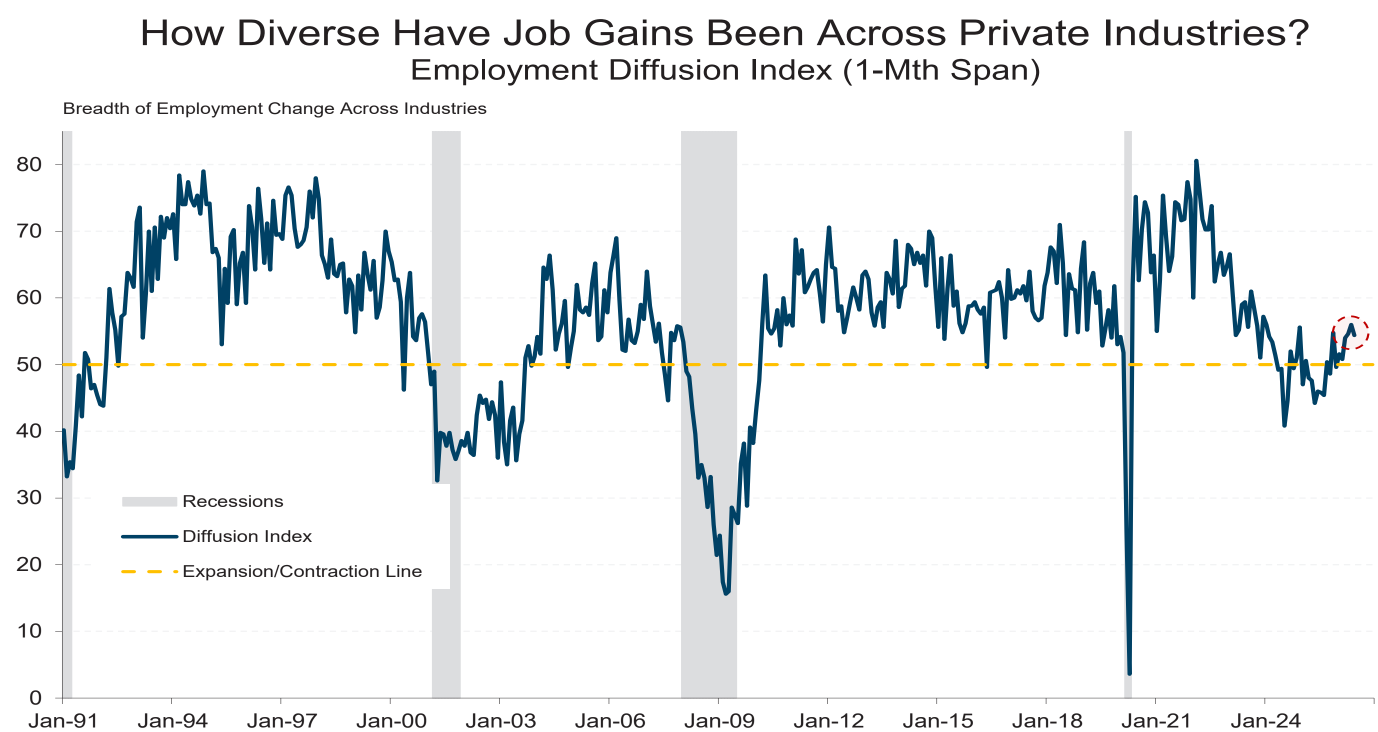
At the same time, policy support for the long end may be less dependable. The Fed appears less willing to suppress yields; conversely, the Treasury seems to be becoming more active in trying to manage the curve. Yields may not spike into crisis territory, but the low-rate era is unlikely to return soon, and yields will eventually rise further unless the government takes more tangible steps toward deficit and debt reduction. Ultimately, tougher decisions will need to be taken with regard to entitle-ments and revenue-raising measures. History tells us that debt reduction can be achieved by default, auster-ity, faster economic growth, financial repression, and unexpected bouts of inflation. At the moment, the plan seems to be to rely on the last three solutions, although bouts of inflation only work if the market is not already expecting it to be higher and demanding higher compen-sation in advance.

Highlights in the Week Ahead

Date	Time (ET)	Indicator	Last	Consensus	WB Estimate	Actual
1 Sep	10:00 a.m.	ISM Manufacturing (August)	55.6	55.4	55.7	
1 Sep	10:00 a.m.	JOLTS (July)	7359K	7300K	N/A	
2 Sep	10:00 a.m.	Factory Orders (July)	-0.3%	0.1%	0.8%	
3 Sep	8:30 a.m.	Productivity (Q2 Final)	1.4%	N/A	N/A	
		Unit Labor Costs	1.3%	N/A	N/A	
3 Sep	10:00 a.m.	ISM Services Index (August)	70.3	70.0	69.7	
4 Sep	8:30 a.m.	Unemployment Rate (August)	4.1%	4.2%	4.2%	
		Nonfarm Payrolls	-23K	60K	75K	
		Average Hourly Earnings	0.1%	0.2%	0.2%	

Sources: Bloomberg, William Blair Equity Research

Indicators of the Week: Employment Situation



Figures are the percent of industries with employment increasing plus one-half of the industries with unchanged employment, where 50 percent indicates an equal balance between industries with increasing and decreasing employment.
Sources: BLS, William Blair Equity Research

Economic Scorecard

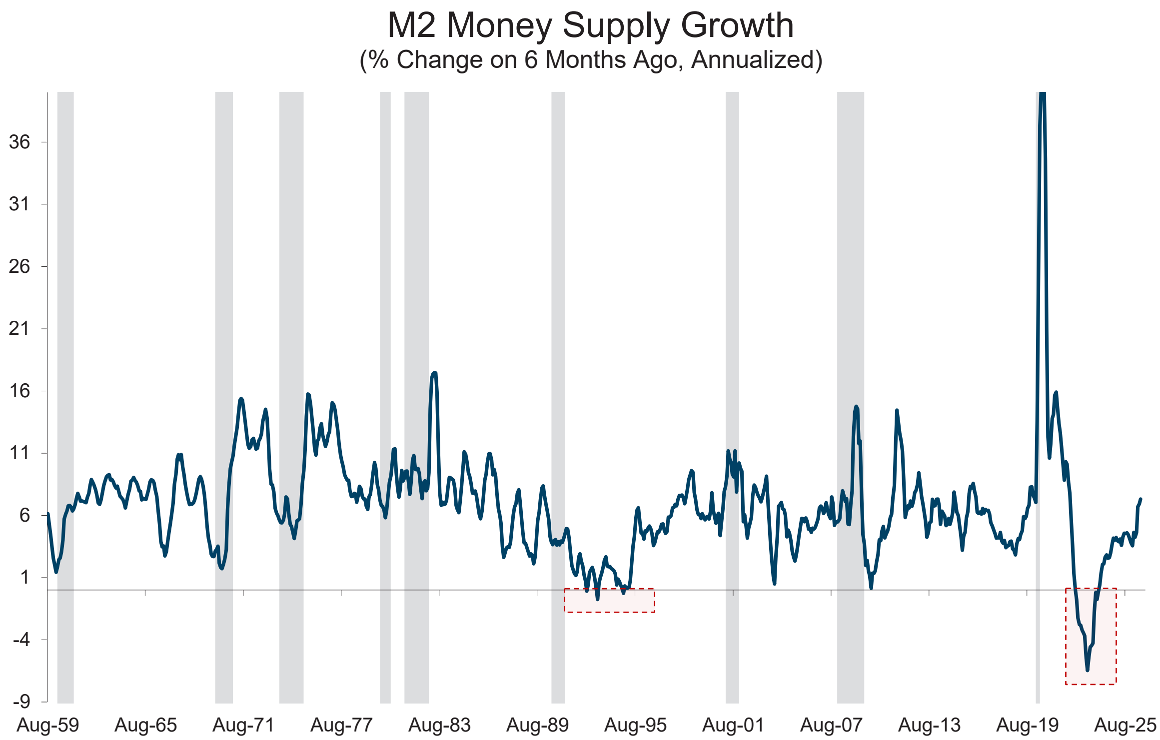
Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Growth																			
US Leading Indicators	-3.0	-3.3	-4.1	-3.7	-3.8	-3.4	-3.5	-3.2	-3.1	-3.7	-3.7	-3.6	-3.1	-3.0	-1.6	-1.4	-1.2		
US Coincident Indicators	1.4	1.8	1.8	1.1	1.1	1.4	1.2	1.2	1.0	0.8	0.6	0.9	0.8	0.3	0.3	0.6	0.7		
US Lagging Indicators	-0.5	-0.6	-0.8	-0.1	-0.3	-0.5	-0.4	0.2	0.3	0.3	0.7	0.9	0.6	1.1	1.3	0.7	0.7		
Consumer																			
Total Retail Sales	3.8	5.2	5.1	3.1	3.9	4.1	5	4.1	3.2	3.2	2.4	3.3	4.2	4.2	5.1	7.2	6.8	5.0	
Personal Income	5	5.2	5.6	4.5	4.3	4.8	5.1	5.1	4.5	4.4	4.2	4.1	3.5	3.3	2.7	4	3.9	3.7	
Real Disposable Personal Income	1.8	2.3	2.8	1.5	1.2	1.7	1.8	1.8	1.3	1	0.8	1.4	0.8	0	-1	0.1	0.5	0.5	
Real Personal Consumption	2.7	3.2	3.1	2.5	2.5	2.6	2.8	2.4	2.5	2.2	1.6	2	2.4	1.9	1.9	2.4	2.6	2.1	
Personal Saving Rate (%)	5.2	5.1	5.5	4.9	4.6	4.5	4.4	4.3	3.9	3.8	3.6	4.4	3.8	3.5	2.9	2.8	2.6	3	
Consumer Confidence (Conference Board)**	100.1	93.9	85.7	98.4	95.2	98.7	97.8	95.6	95.5	92.9	94.2	89	91	92.2	93.8	90.6	92.2	90.2	
Employment																			
Employment Growth	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.3	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.3	0.2	
ASA Temporary Staffing Index	-7.5	-8.7	-6.4	-5.8	-5.3	-0.8	-0.9	0.8	1.5	4.5	7.3	2.3	3.2	6.1	5.4	5.1	6.5	2.5	
ISM Employment Index Manufacturing*	47.1	44.4	46.2	46.1	45.1	44.9	44.3	45.4	45.8	44.1	44.8	48.1	48.8	48.7	46.4	48.6	49.7	52.8	
ISM Employment Index Services*	53.4	46	49.2	50.4	47.7	46.9	46.9	47.6	48.1	48.7	51.7	50.3	51.8	45.2	48	47.9	51.2	47.4	
Unemployment Rate, %	4.2	4.2	4.2	4.3	4.1	4.3	4.3	4.4		4.5	4.4	4.3	4.4	4.3	4.3	4.3	4.2	4.1	
Average Hourly Earnings	4.1	4.2	3.9	4	3.9	4	4	3.8	3.9	3.9	3.7	3.7	3.7	3.4	3.6	3.3	3.4	3.2	
Initial Jobless Claims (avg. wkly. chg. '000s)	226	223	226	233	239	222	231	234	226	221	219	213	216	208	208	215	223	199	
Jop Openings	-14.2	-15.3	-5.7	-6.1	-2.9	-4.5	-8.0	3.3	-2.8	-9.5	-10.2	-2.6	-4.4	-0.9	6.9	3.1	2.2		
Layoff Announcements	103.2	204.8	62.7	47	-1.6	139.8	13.3	-25.8	175.3	23.5	-8.3	117.8	-71.9	-78	-20.9	3.4	-4.5	-46.1	
Housing Market																			
Housing Starts	-4.1	3.8	1.5	-3	4.6	12.8	-7.4	-2.8	-7.1	1.5	-7.8	2.4	-9.7	13.1	1	-8.3	2.6		
New Home Sales	-1.8	-3.7	-0.7	-7.2	-2.6	-11.5	1.6	-0.1	3.2	13.2	3	-13.4	-1.7	0.5	-8.6	1.3	2		
Existing Home Sales	-1.0	-2.7	-1.5	-0.5	0.5	0.8	2.3	4.4	2.2	-1.2	1.9	-1.7	-0.5	-0.3	0.5	3.7	3.8		
Median House Price (Existing Homes)	-1.4	-5.4	-0.4	2.5	-1.2	-7.4	3	-1	-5.2	1.2	1.4	-3.1	-0.7	-3.4	0.5	-2	-1.5		
Existing Homes Inventory (Mths' supply)	4	4.2	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.2	4	4.2	4.3	4.3	4.3	4.2	4.3		
New Homes Inventory (Mths' supply)	9.4	9.3	8.6	9.7	9	9.2	8.5	8.2	9	7.7	7.9	9.9	9.3	8.7	9	9.3	8.5		
NAHB Homebuilder Sentiment*	42	39	40	34	32	33	32	32	37	38	39	37	37	38	34	37	36		
Inflation																			
Consumer Price Index	2.8	2.4	2.3	2.4	2.7	2.7	2.9	3		2.7	2.7	2.4	2.4	3.3	3.8	4.2	3.5	3.4	
CPI Less-food & energy	3.1	2.8	2.8	2.8	2.9	3.1	3.1	3		2.6	2.6	2.5	2.5	2.6	2.8	2.9	2.6	2.5	
Producer Price Index	3.4	3.2	2.4	2.7	2.4	3.2	2.7	3	2.8	3.1	3.1	3.1	3.4	4.3	5.7	5.9	5.5	4.7	
PPI Less-food & energy	3.7	3.8	3.1	3.2	2.7	3.5	2.9	3	3	3.2	3.4	3.7	3.8	3.9	4.9	4.4	4.7	4.2	
PCE Price Index	2.7	2.4	2.3	2.5	2.6	2.6	2.7	2.8	2.7	2.8	2.9	2.9	2.9	3.5	3.8	4.1	3.7	3.7	
PCE Prices Less-food & energy	3.0	2.7	2.6	2.8	2.8	2.9	2.9	2.8	2.8	2.8	3.0	3.1	3.0	3.3	3.3	3.5	3.3	3.3	
Business Activity - US																			
Industrial Production	0.8	0.6	0.9	0.1	0.6	1.9	1.2	1.9	1.8	1.8	1.2	1.0	0.8	0.7	1.4	1.5	1.3	1.1	
New Cap Gds Orders less-aircraft & parts	-0.9	2.2	0.5	2.2	4.5	4.4	2.5	5.3	6.2	4.1	8	2.9	5.9	10.8	11.1	10	14.9	13.5	
Business Inventories	2.5	2.2	2.5	2.1	1.7	1.6	1.4	1	1.3	1.3	1.2	1.5	1	1.2	2.1	2.8	3.2	3	
ISM Manufacturing PMI*	50	48.9	48.8	48.6	49	48.4	48.9	48.9	48.8	48	47.9	52.6	52.4	52.7	52.7	54	53.3	55.6	
Markit US Manufacturing PMI*	52.7	50.2	50.2	52	52.9	49.8	53	52	52.5	52.2	51.8	52.4	51.6	52.3	54.5	55.1	53.9	53.9	
ISM Services Index*	53.2	50.8	51.6	50.2	50.8	50.5	51.9	50.3	52	52.4	53.8	53.8	56.1	54	53.6	54.5	54	54.1	
Markit US Services PMI*	51	54.4	50.8	53.7	52.9	55.7	54.5	54.2	54.8	54.1	52.5	52.7	51.7	49.8	51	50.7	51.2	54.6	
Business Activity - International																			
Germany Manufacturing PMI Markit/BME*	46.5	48.3	48.4	48.3	49	49.1	49.8	49.5	49.6	48.2	47	49.1	50.9	52.2	51.4	50.1	50.3	52.2	54.1
Japan Manufacturing PMI Jibun Bank*	49	48.4	48.7	49.4	50.1	49	49.7	48.5	48.2	48.7	50	51.5	53	51.6	55.1	54.5	54.8	54.5	55.1
Caixin China Manufacturing PMI*	50.8	51.2	50.4	48.3	50.4	49.5	50.5	51.2	50.6	49.9	50.1	50.3	52.1	50.8	52.2	51.8	51.7	50.9	
China Manufacturing PMI*	50.2	50.5	49	49.5	49.7	49.3	49.4	49.8	49	49.2	50.1	49.3	49	50.4	50.3	50	50.3	49.2	
UK Manufacturing PMI Markit/CIPS*	46.9	44.9	45.4	46.4	47.7	48	47	46.2	49.7	50.2	50.6	51.8	51.7	51	53.7	53.9	52.5	51.9	51.5
France Manufacturing PMI Markit*	45.8	48.5	48.7	49.8	48.1	48.2	50.4	48.2	48.8	47.8	50.7	51.2	50.1	50	52.8	49.7	51.2	49.8	51.5
Currencies* **																			
Euro (EUR/USD)	-4.0	0.2	6.2	4.6	10.0	5.4	5.8	5.4	6.0	9.7	13.4	14.4	13.9	6.8	3.6	2.7	-3.1	1.0	
Renmimbi (USD/CNY)	1.2	0.5	0.4	-0.6	-1.4	-0.4	0.6	1.5	0.0	-2.4	-4.3	-4.0	-5.7	-5.0	-6.1	-6.0	-5.3	-6.2	
Yen (USD/Yen)	0.4	-0.9	-9.3	-8.4	-10.5	0.5	0.6	3.0	1.3	4.3	-0.3	-0.3	3.6	5.8	9.4	10.6	12.9	4.4	
Sterling (GBP/USD)	-0.4	2.3	6.7	5.6	8.6	2.7	2.9	0.5	2.0	3.9	7.7	10.4	7.2	2.4	2.1	0.0	-3.4	2.1	
Canadian $ (USD/CAD)	6.5	6.3	0.2	0.8	-0.5	0.3	1.8	2.9	0.5	-0.2	-4.6	-6.4	-5.7	-3.3	-1.6	0.4	4.3	1.2	
Mexican Peso (USD/MXN)	20.5	23.6	14.4	14.3	2.3	1.4	-5.4	-7.0	-7.4	-10.2	-13.5	-15.6	-16.2	-12.4	-11.0	-10.7	-6.7	-8.1	
US Equities																			
S&P 500	16.8	6.8	10.6	12.0	13.6	14.8	14.4	16.1	19.9	13.5	16.4	14.9	15.5	16.3	29.4	28.2	20.9	18.1	
S&P 400 Midcap	7.1	-4.2	-0.3	0.6	5.9	1.7	5.3	4.5	4.8	-1.7	5.9	6.1	15.5	15.7	27.6	24.1	24.2	19.3	
S&P 600 Smallcap	4.5	-5.0	-3.6	-3.4	2.8	-6.3	1.8	1.9	3.8	-4.0	4.2	7.0	15.9	18.5	36.6	31.2	35.3	31.5	
Russell 2000	5.3	-5.3	-0.5	-0.2	6.2	-1.9	6.7	9.3	12.9	2.7	11.3	14.3	21.7	24.1	42.6	41.3	39.0	32.5	

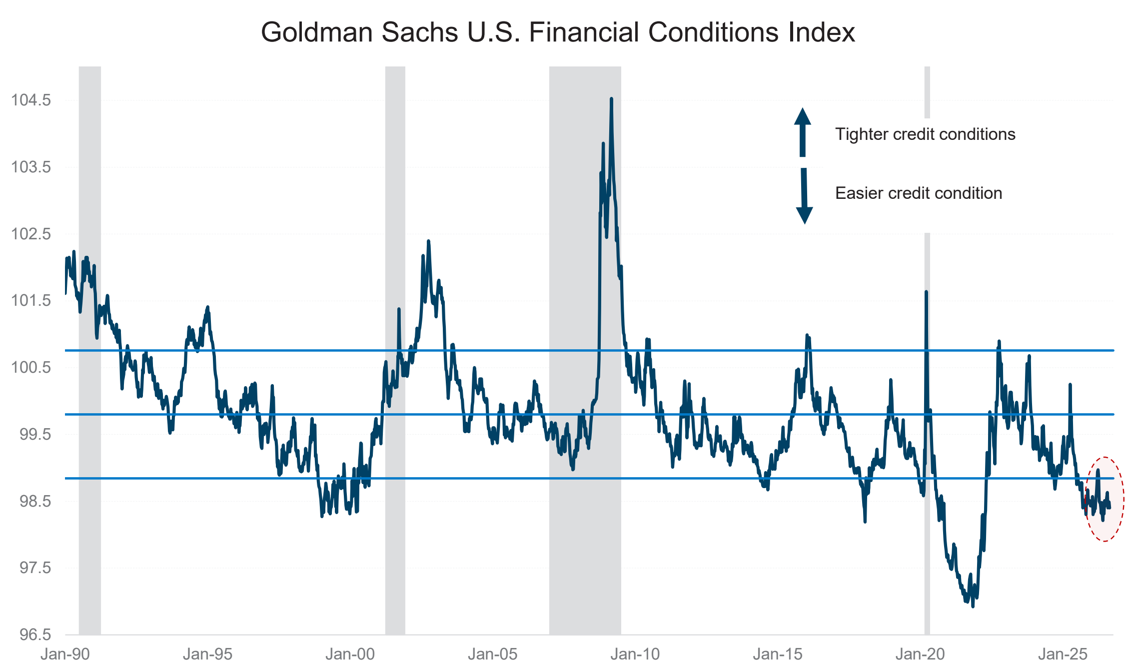
* Diffusion Index, **1985=100, ***Currencies - green/red = strengthening/weakening foreign currency vs dollar

Source: ISM, Federal Reserve, Census Bureau, Bureau of Labor Statistics, Conference Board, Bloomberg, William Blair

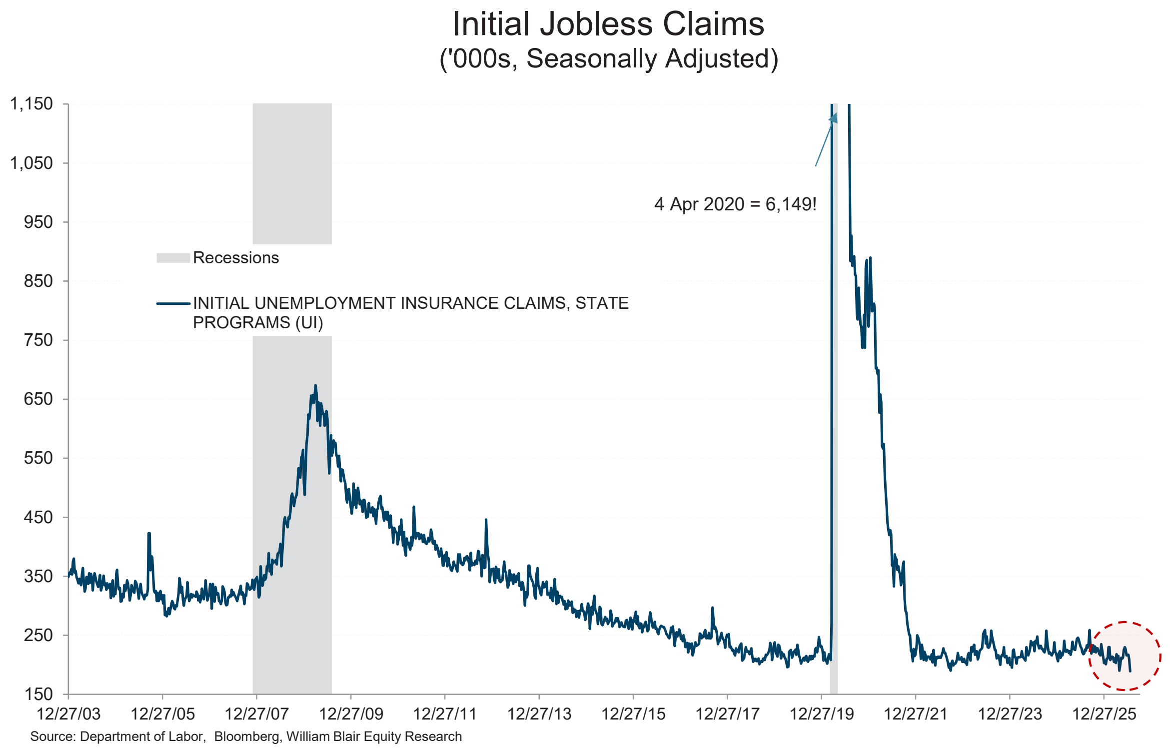
Other Economic Indicators

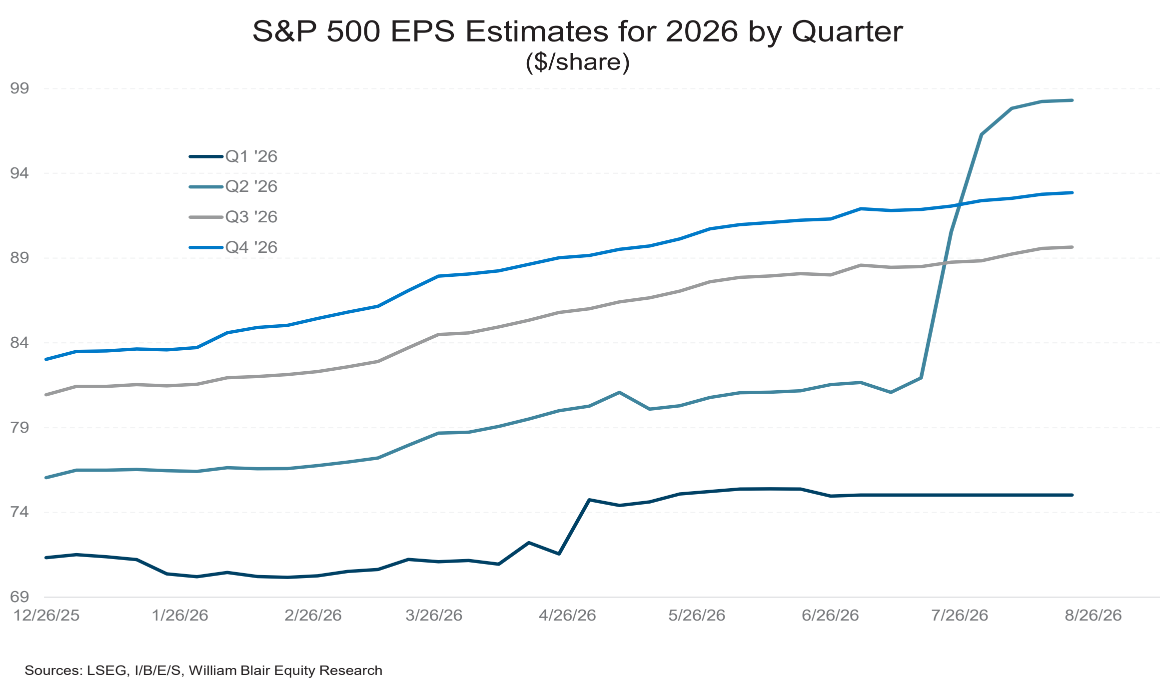


Sources: Federal Reserve, William Blair Equity Research

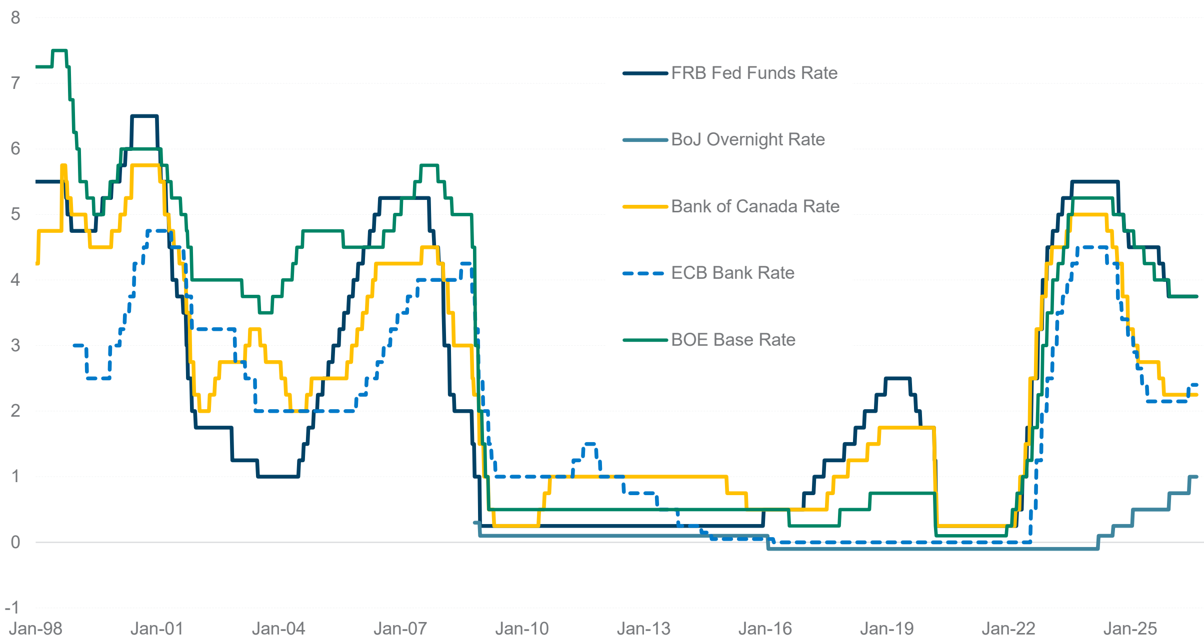


Sources: Bloomberg, William Blair Equity Research


Initial Jobless Claims
('000s, Seasonally Adjusted)
1,150
1,050
950
850
750
650
550
450
350
250
150
Recessions
INITIAL UNEMPLOYMENT INSURANCE CLAIMS, STATE PROGRAMS (UI)
4 Apr 2020 = 6,149!
12/27/03
12/27/05
12/27/07
12/27/09
12/27/11
12/27/13
12/27/15
12/27/17
12/27/19
12/27/21
12/27/23
12/27/25
Source: Department of Labor, Bloomberg, William Blair Equity Research

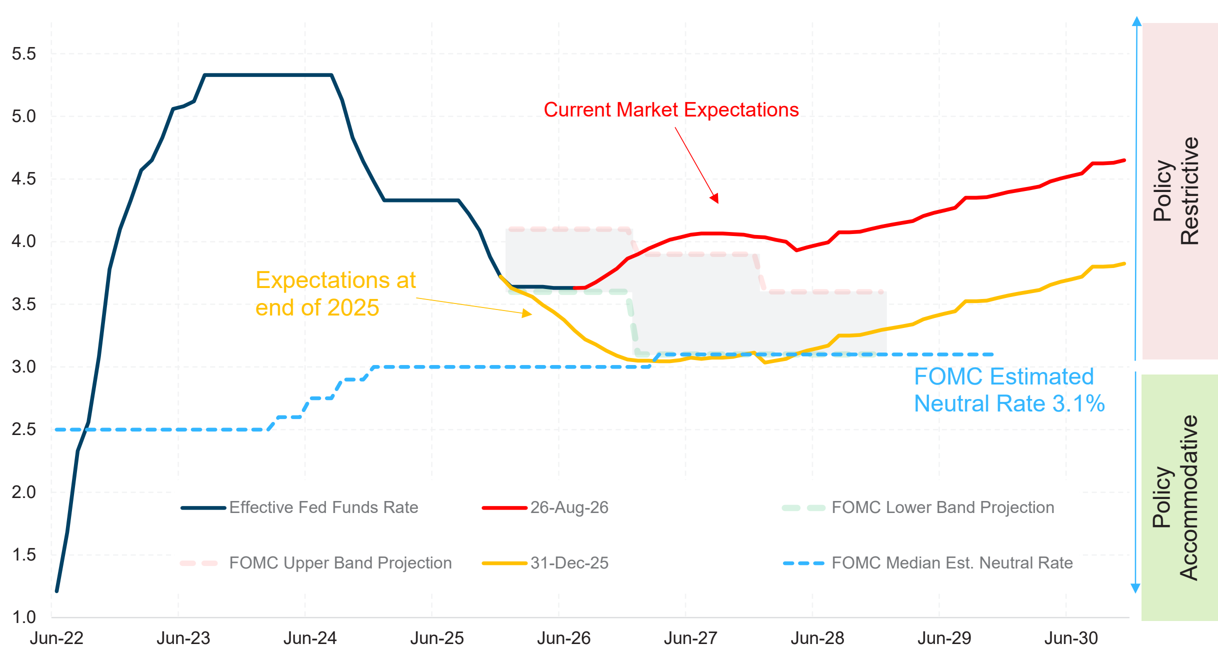

S&P 500 EPS Estimates for 2026 by Quarter
($/share)
99
94
89
84
79
74
69
Q1 '26
Q2 '26
Q3 '26
Q4 '26
12/26/25
1/26/26
2/26/26
3/26/26
4/26/26
5/26/26
6/26/26
7/26/26
8/26/26
Sources: LSEG, I/B/E/S, William Blair Equity Research

Central Bank Target Short-Term Interest Rates, %



Sources: Bloomberg, William Blair Equity Research

Fed Funds Rate Futures Market Expectations & FOMC Projections, %



Sources: Bloomberg, William Blair Equity Research

S&P 500 Sector Performance

Global Industry Classification System	Current Weight* 27-Aug-26	Week Ago 20-Aug-26	Month Ago 27-Jul-26	Qtr-to-Date 30-Jun-26	Year-to-Date 31-Dec-25
S&P 500 Index	**100.00**	**1.18**	**4.29**	**3.09**	**12.94**
S&P 400 MidCap Index		**0.38**	**0.78**	**-0.71**	**15.74**
S&P 600 SmallCap Index		**0.27**	**0.76**	**-1.21**	**21.45**
Dow Jones Industrials		**1.54**	**2.60**	**2.39**	**11.46**
Nasdaq Composite		**1.82**	**6.45**	**1.25**	**14.20**
Communication Services	**9.41**	**0.87**	**2.67**	**-0.66**	**-0.22**
Advertising	0.18	1.16	-18.59	-11.03	-34.74
Broadcasting	0.05	0.03	20.66	25.89	-9.34
Cable & Satellite	0.04	0.01	5.95	-6.01	-25.82
Integrated Telecommunication Services	0.66	0.61	6.40	16.93	7.51
Interactive Home Entertainment	0.06	-2.98	-3.56	-3.71	-4.66
Interactive Media & Services	7.22	1.11	1.76	-3.12	1.64
Movies & Entertainment	0.90	-0.23	11.75	10.07	-9.43
Publishing & Printing	0.02	5.02	14.28	25.69	19.35
Wireless Telecommunication Svcs	0.27	-1.91	0.30	5.98	-12.46
Consumer Discretionary	**9.39**	**-0.71**	**6.37**	**-0.25**	**-1.35**
Apparel Retail	0.31	-3.00	-11.48	-5.77	-2.37
Apparel & Accessories & Luxury Goods	0.07	-4.17	-11.03	-11.40	-17.69
Auto Parts & Equipment	0.01	-3.38	-20.90	-25.97	-31.35
Automobile Manufacturers	2.15	2.45	12.38	-13.52	-18.65
Automobile Retail	0.24	0.18	1.49	-1.11	-9.14
Broadline Retail	3.94	-1.49	10.30	7.19	11.14
Casinos & Gaming	0.07	-3.48	-6.98	-5.80	-19.72
Computer & Electronics Retail	0.02	-2.53	-5.53	10.12	24.85
Consumer Electronics	0.08	-1.10	19.55	22.03	42.90
Distributors	0.03	2.84	7.05	15.87	10.63
Footwear	0.08	-4.08	-9.40	-7.85	-35.89
Home Furnishings	0.01	-2.75	12.28	6.98	18.76
Home Improvement Retail	0.62	-2.59	-2.24	-6.67	-7.27
Homebuilding	0.14	-0.62	-1.21	-8.42	-4.08
Hotels, Resorts & Cruise Lines	0.77	-1.71	3.01	4.66	4.94
Leisure Products	0.02	0.66	3.94	14.04	14.85
Restaurants	0.74	0.40	4.22	3.96	-0.64
Other Specialty Retail	0.06	2.21	10.95	15.19	-20.61
Consumer Staples	**4.81**	**-0.46**	**-1.43**	**0.92**	**7.70**
Agricultural Products	0.08	-3.50	-4.95	3.82	33.84
Brewers	0.01	-2.23	1.29	6.93	-10.75
Consumer Staples Merchandise Retail	2.05	-0.25	-3.51	-2.53	2.67
Distillers & Vintners	0.04	-2.42	0.97	-4.03	-3.07
Food Distributors	0.06	-0.73	-1.95	-1.35	11.89
Food Retail	0.09	-3.29	-6.09	-0.60	0.45
Household Products	0.67	0.57	-2.53	-1.31	3.67
Packaged Foods & Meats	0.30	-2.00	1.41	6.73	2.21
Personal Care Products	0.09	5.00	8.89	12.30	6.99
Soft Drinks	0.99	-1.47	3.24	5.38	15.39
Tobacco	0.57	-0.10	-3.94	1.93	18.38
Energy	**3.21**	**-2.76**	**5.61**	**16.67**	**37.65**
Integrated Oil & Gas	1.55	-4.76	2.73	16.78	30.87
Oil & Gas Equipment & Services	0.24	0.78	5.80	13.46	37.52
Oil & Gas Exploration & Production	0.61	-3.40	7.48	14.25	29.12
Oil & Gas Refining & Marketing & Transportation	0.42	0.99	15.14	38.88	106.92
Oil & Gas Storage & Transportation	0.40	0.06	4.43	3.14	28.58

Financials	**11.58**	**1.73**	**1.64**	**7.74**	**5.52**
Asset Management & Custody Banks	1.01	2.52	6.26	17.39	10.34
Consumer Finance	0.54	1.58	2.07	2.76	-9.64
Diversified Banks	2.97	0.66	-1.22	4.68	8.45
Diversified Financial Services	6.80	2.64	3.95	9.99	4.17
Financial Exchanges & Data	0.83	2.65	5.51	20.18	-2.90
Insurance Brokers	0.40	-0.29	1.85	12.79	0.17
Investment Banking & Brokerage	1.39	3.77	2.04	6.80	15.36
Life & Health Insurance	0.28	1.30	-2.27	6.36	13.96
Multi-Sector Holdings	0.99	1.38	1.31	0.66	0.21
Property & Casualty Insurance	0.86	-0.09	-3.22	2.31	5.86
Regional Banks	0.26	0.11	-2.58	-0.45	8.09
Reinsurance	0.02	2.53	-3.00	5.72	11.29
Transaction & Payment Processing	1.92	3.12	5.70	13.73	5.34
Health Care	**9.00**	**-0.46**	**4.94**	**7.86**	**10.62**
Biotechnology	1.70	0.54	11.57	13.20	22.77
Health Care Distributors	0.32	4.12	3.88	11.33	6.23
Health Care Equipment	1.32	-1.74	5.65	10.03	-16.15
Health Care Facilities	0.14	2.79	7.71	8.54	-11.67
Health Care Services	0.36	0.29	-7.04	-2.34	16.17
Health Care Supplies	0.06	-1.77	2.87	3.35	-0.71
Life Sciences Tools & Services	0.85	0.81	12.47	18.95	7.97
Managed Health Care	0.73	2.32	-2.61	-2.97	22.75
Pharmaceuticals	3.45	-2.19	2.48	4.86	18.61
Industrials	**8.04**	**-0.48**	**-2.48**	**-3.63**	**15.13**
Aerospace & Defense	2.05	-1.20	-4.47	-1.00	6.81
Agricultural & Farm Machinery	0.24	0.28	-0.38	-1.84	33.74
Air Freight & Logistics	0.28	2.60	-0.57	0.99	19.64
Building Products	0.41	-0.70	-7.24	-9.48	10.44
Cargo Ground Transportation	0.12	-2.73	-10.22	-8.88	30.01
Construction & Engineering	0.26	-4.50	-1.28	-14.01	49.60
Construction Machinery & Heavy Trucks	0.80	-0.41	-6.88	-17.96	33.84
Data Processing & Outsourced Services	0.03	2.57	19.83	33.68	-17.96
Diversified Support Svcs	0.16	-1.18	0.31	18.88	-0.20
Electrical Components & Equipment	0.69	0.91	-0.12	-6.77	19.30
Environmental & Facilities Services	0.27	-1.90	-4.15	0.01	-4.03
Heavy Electrical Equipment	0.36	-1.26	-4.29	-18.81	45.94
Human Resource & Employment Services	0.22	2.21	11.08	27.52	12.02
Industrial Conglomerates	0.25	0.60	-4.05	5.48	14.23
Industrial Machinery	0.59	0.23	-0.29	0.35	6.49
Passenger Airlines	0.15	0.19	-7.64	-16.51	7.04
Passenger Ground Transportation	0.22	-2.04	12.86	6.64	-5.83
Railroads	0.50	1.01	1.57	11.27	32.30
Research & Consulting Svcs	0.12	0.39	5.67	18.25	-11.14
Trading Companies & Distributors	0.32	-1.47	-4.02	-3.55	27.02
Information Technology	**35.84**	**3.09**	**8.18**	**3.56**	**23.68**
Application Software	1.85	8.25	24.35	29.02	-9.41
Communications Equipment	1.32	4.61	6.56	2.02	46.60
Electronic Components	0.54	3.38	7.73	-23.91	33.83
Electronic Equipment & Instruments	0.14	1.27	5.71	-1.32	45.12
Electronic Manufacturing Services	0.19	1.57	-1.13	-15.41	-2.65
Internet Software & Services	0.08	2.84	2.85	8.41	8.08
IT Consulting & Services	0.53	2.69	16.00	4.11	-24.19
Semiconductor Equipment	1.55	-0.62	-1.32	-31.72	77.19
Semiconductors	14.88	2.63	7.40	-1.34	34.54
Systems Software	7.04	6.25	28.41	30.18	9.11
Technology Distributors	0.03	11.55	7.91	5.92	9.37
Technology Hardware, Storage & Peripherals	7.68	0.76	-4.69	3.97	28.03
Materials	**1.74**	**2.11**	**4.93**	**5.22**	**16.89**
Commodity Chemicals	0.06	-7.63	6.38	14.50	36.11
Construction Materials	0.19	1.77	-6.32	-9.19	-16.85
Copper	0.16	10.11	25.03	24.69	54.40

Fertilizers & Agricultural Chemicals	0.11	2.63	-2.50	2.46	27.38
Gold	0.20	3.64	41.53	41.64	32.49
Industrial Gases	0.41	1.04	-2.39	-4.19	15.98
Metal & Glass Containers	0.02	1.21	-2.01	1.56	19.63
Paper Packaging	0.14	-1.40	-1.06	5.46	11.61
Specialty Chemicals	0.32	0.95	5.38	1.40	9.57
Steel	0.13	5.91	-1.03	9.30	48.78
Real Estate	**1.73**	**-0.83**	**-2.47**	**1.70**	**11.54**
Data Center REITs	0.25	-0.79	0.96	4.66	34.04
Health Care REITs	0.34	0.66	-4.22	4.72	26.55
Hotel & Resort REITs	0.02	-3.25	-10.53	-5.78	29.75
Industrial REITs	0.19	0.83	-3.67	4.71	11.11
Multi-Family Residential REITs	0.00	-0.92	-3.55	-4.84	0.79
Office REITs	0.02	3.23	1.10	5.51	3.69
Other Specialized REITs	0.09	-1.45	-3.51	-2.90	16.86
Real Estate Service	0.08	-2.97	3.45	9.61	-25.39
Retail REITs	0.24	-1.98	-7.07	-3.08	13.38
Self-Storage REITs	0.12	-3.38	-3.87	-2.01	15.82
Single-Family Residential REITs	0.12	-3.38	-3.87	-2.01	15.82
Telecom Tower REITs	0.19	-0.15	4.18	4.49	-5.22
Timber REITs	0.02	-3.74	-0.88	-1.00	0.05
Utilities	**1.91**	**-1.38**	**-5.80**	**-5.15**	**0.73**
Electric Utilities	1.26	-1.28	-5.34	-4.09	0.91
Gas Utilities	0.04	-1.94	-6.17	-2.93	-0.25
Independent Power Producers & Energy Traders	0.08	0.48	-9.16	-9.71	-10.64
Water Utilities	0.04	-0.38	1.58	3.88	4.75
Multi-Utilities	0.49	-1.94	-6.87	-7.78	2.10

*Current Weight is market cap based, based on calculations by William Blair Intl. Ltd.

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DOW JONES: 53569.40
S&P 500: 7730.99
NASDAQ: 26541.30

Additional information is available upon request.

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Coverage Universe	**Percent**	**Inv. Banking Relationships ***	**Percent**
Outperform (Buy)	72	Outperform (Buy)	14
Market Perform (Hold)	28	Market Perform (Hold)	4
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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