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Economics Weekly
AI Might Not Be as Disinflationary as the Market Hopes

Please refer to important disclosures on pages 14 and 15. Analyst certification is on page 14.

Last week, we discussed some of the reasons interest rates are likely to move higher in the near term and remain elevated over the longer term relative to rates experienced from 2000 to 2020—in particular, that the inflation regime has changed. We also contended that the previous low-inflation regime was the result of an extraordinarily lucky confluence of factors, including: globalization, demographics, the rise of China, the opening up of the former Soviet Union, innovation, fiscal conservatism, and the reduction in labor's bargaining power. Those factors have all now changed; they are either no longer contributing the same amount of disinflationary pressure or they are raising inflation, in addition to other factors that are also now raising inflationary pressures. The main pushback to this narrative is that we are on the cusp of a massively disinflationary AI boom, one that will result in interest rates coming right back down over the longer term. **Hence, in this *Economics Weekly*, we discuss why this benign narrative might not be that simple and how we should really be thinking about the disinflationary impact of AI.**

Will the Longer Term Be as Benign as Expected?

The seeming conclusion from the Treasury bond market following Fed Chair Kevin Warsh's Jackson Hole speech was that the Fed may lift rates in the near term to tamp down cyclical inflationary pressures, but that inflation will soon feel the full disinflationary force of the AI revolution. This in turn should quell any upward pressure on Treasury yields.

While Warsh is still waiting to hear back from his taskforces on inflation and productivity, he seems to already be moving toward a similar conclusion—that more rapid productivity growth will soon drive inflation lower. As a result, the Fed just needs to nudge rates a little higher to get over this near-term inflation bump before we realize those benefits and rates can be lowered again.

We think the reality might not be quite as simple as some investors currently anticipate.

AI and Inflation—The Buildout

In the very near term, we think the current AI impact is likely more inflationary than disinflationary. Enormous amounts of money are being poured into business capex to build out data centers, semiconductors chips, electricity, and other critical materials needed to produce AI. Real spending on business equipment increased by 13.6% annualized in the second quarter and 15.8% in the first quarter, and the price of semiconductor chips is soaring (exhibit 1). As a result, demand is still running much faster than productive capacity is being built.

Exhibit 1
Producer Prices Index - Semiconductors & Other Electronic Components
% Change on Year Ago

Sources: Bloomberg, William Blair Equity Research

Former Treasury Secretary and former Fed Chair Janet Yellen similarly noted in an interview at the July 2026 Expert XP 2026 Conference:

> *Another thing we are seeing, and I think I would see it as a supply shock as well is the huge buildout that's taking place for data centers for AI has caused a surge in demand for semiconductors and electricity. That's again pushing prices in those sectors up. It's filtered through to consumer electronics, iPhones have risen in price, it's going to have more effects. So now we're looking at 5 years and counting with inflation meaningfully higher than the Fed's 2% objective. And while I don't at this point see inflationary pressure coming from the labor market through wages, and amazingly inflationary expectations still seem to be in line with the Fed's target, there is concern that there could be second round effects…. So right now AI, I think, is demonstrably raising inflation rather than the opposite. So I don't think the Federal Open Market Committee would dream right now of lowering rates because of AI, but maybe over the medium term, over the next couple of years, they would see something which would justify the same sort of thing we saw in the second half of the 1990s, but not yet.*

Inflation Beyond the AI Buildout

We think the narrative becomes a little trickier with the overwhelmingly strong belief that AI will ultimately drive inflation much lower over the medium to longer term. Rather, we take a more balanced approach and view inflation as not returning to the 1970s and 1980s nor to the 2000-2020 disinflationary period. We think inflation is likely to remain sticky at the 2.5%-3.0% rate, but with more volatility around that higher mean. Investors should therefore be cautious in regard to any expectations for a productivity-driven return to the 2000-2020 period in the coming years.

To be sure, we think that AI will have a disinflationary impact, in that it will eventually turn out to be productivity-enhancing and the supply side will catch up to the demand side of the economy. AI will either 1) act as a complement to labor, which should decrease unit labor costs (i.e., compensation adjusted for productivity growth), or 2) turn out to be a substitute for labor, replacing workers, raising unemployment, and thereby lowering spending and pricing pressures. It could also increase competition among businesses by lowering the marginal cost of production and allowing new entrepreneurs to enter the market, which will squeeze margins lower.

But this is only one part of the inflation narrative. First, AI itself may not be as deflationary as expected, and second, even if it is, it still may not sufficiently counter the other factors that are now pointing toward higher inflation in the coming years.

Many techno optimists believe we are entering a period similar to the late 1990s, when Greenspan was famously prescient in spotting productivity growth and convincing the FOMC not to raise interest rates. In her recent discussion cited above, Yellen goes on to say that she remembers the September 1996 FOMC meeting when just about every member of the committee was prepared to raise interest rates—this included Yellen, who felt she was the most simpatico with Greenspan's views on productivity. In the end the Fed chair was able to convince the committee not to raise rates, based on his view that productivity growth was much stronger than the official data were showing (though the committee subsequently raised rates in March the following year by 25 basis points).

This Is Not the 1990s Disinflation

There are major differences between today and the late 1990s, one of the most important being that the budget deficit as a share of GDP was steadily shrinking from the recession peak of -5% in 1992 to a surplus of 2.5% in 2001. Today, during a booming economic expansion, the deficit is already 6% of GDP and expected to remain there for the coming decade.

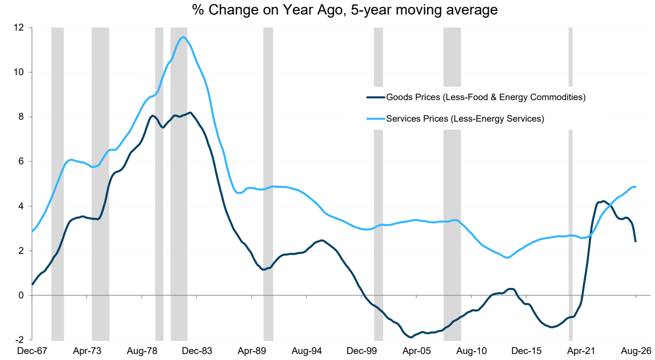
Meanwhile, in the 1990s the U.S. was starting to open up globally and benefit from the introduction of new free trade agreements, which also meant the emergence of a global supply glut of labor coming from many emerging market economies, in particular Eastern Europe following the collapse of the Berlin Wall.

European economies were also adopting more fiscally conservative stances as part of the Maastricht Treaty requirements ahead of the monetary union. Demographics were also very favorable, with the baby boomers and Gen X engaged in the labor market, resulting in a steady rise in the employment-to-population ratio. Simultaneously there was also a decline in labor's bargaining power with the death of the labor union. Lastly, the world was still benefiting from the hard work of previous central bankers such as Paul Volcker who broke the back of the previous inflation regime, and from the move toward inflation targeting.

In short, the productivity boom brought about by the internet was only one of a number of factors that helped pull down inflation, and just about all of these other disinflationary drivers are now in reverse today.

Goods prices, for example, after experiencing deflation for a quarter century to 2021, are now exerting much more upward pressure on inflation (exhibit 2).

Exhibit 2
Consumer Prices: Services vs Goods
% Change on Year Ago, 5-year moving average



Source: Bureau of Labor Statistics, William Blair Equity Research

Hence, while we agree that AI is likely to be highly disinflationary, it will not be a falling tide for all boats.

There will be a disinflationary impulse for the information economy as knowledge work becomes cheaper (though as our colleague Andrew Nicholas describes here, the demand for higher-quality proprietary data likely increases, suggesting that maybe cost reduction here too may be less than many anticipate); the impact is likely to be moderately disinflationary for the manufactured goods economy, but when it comes to the supply of local services and healthcare, it is likely to be much less disinflationary.

If this latter sector of the economy is where demand will steadily increase in the coming years due to the aging population, then wage pressures here should be more elevated.

Services inflation accounts for fully 65% of the CPI basket, with core services excluding shelter accounting for approximately 35%. Medical care services, which is one of the largest individual areas, has a 7% index weight. Costs are only increasing here, as more workers will be required to care for the rapidly aging population. This is in addition to strong demand from other areas such as broader healthcare, childcare, education, and hospitality, where companies are already finding it incredibly difficult to acquire labor. Furthermore, all of these service areas are very labor intensive, hard to offshore, and difficult to automate.

Ironically, education and health services are the areas currently holding back growth in the average hourly earnings data from the monthly employment report. Total average hourly earnings are growing at 3.2%, whereas those for education and health service workers are rising just 0.8%.

It is unclear exactly why this is the case, but it could be related to an increase in workers following the extreme shortages and employee burnout during the pandemic; an influx of lower-paid workers, relative to higher-paid doctors, nurses, and clinicians; or, because this industry is still highly regulated when it comes to pricing.

During the pandemic, many providers also faced mounting wage costs against a limited ability to pass those costs along, with the result that they may now be attempting to make up for that by squeezing wages.

If this sector were excluded, average hourly earnings would be rising closer to 3.7%, which would be in line with other compensation gauges such as the employment cost index.

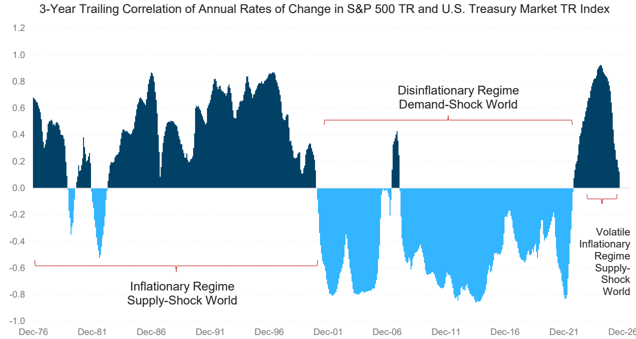
Exhibit 3
Average Hourly Earnings: Total vs. Education and Healthcare Services
% Change on Year Ago

Sources: Bureau of Labor Statistics, William Blair Equity Research

Investment Implications

We have been writing for several years now about the flipping of the stock-to-bond correlation and continue to believe it is one of the most important developments in the investing environment. The correlation changed as we moved from a disinflationary/deflationary regime to an inflationary one beginning with the pandemic (exhibit 4), with the result that bonds no longer provide the same amount of portfolio insurance that they did previously.

Exhibit 4
Correlation Between Stocks and Bonds
3-Year Trailing Correlation of Annual Rates of Change in S&P 500 TR and U.S. Treasury Market TR Index



Sources: Bloomberg, William Blair Equity Research

Back in the old regime, growth was the dominant driver for financial markets, not inflation, given there were effectively no upside risks to inflation. As a result, when stocks sold off due to weaker growth concerns, fears of deflation increased, and central banks were able to respond quickly with deep rate cuts. Bonds then rallied, which helped offset the equity market weakness.

The problem today is that we have moved to a regime where inflation is now the dominant theme, not growth. The equilibrium level of interest rates is higher as real potential growth has improved, the fiscal situation has deteriorated further, and competition in debt markets has increased, as have the risks around inflation. As a result, investors are demanding a greater risk premium to invest in bonds (exhibit 5).

Exhibit 5
ACM Estimated Term Premium for 10-Year U.S. T-Note Yield, %

Sources: Bloomberg, William Blair Equity Research

For central bankers, this means that when growth weakens they are less willing or able to lower rates as quickly as they might have done previously to cushion the shock—for fear of stoking the underlying inflationary pressures. Hence, the monetary policy response becomes less effective as an economic stabilizer, and more weight shifts back onto fiscal policymakers' shoulders to respond.

Unfortunately, with budget deficits already at 6% of GDP during the current expansion, there is now much less room on the fiscal side for a strong policy response before the bond market may decide to push back. In fact, this may be part of the message from the current rout taking place in global developed economy bond markets—investors are warning countries about the lack of fiscal space to manage crises in the future.

From an investment perspective, we continue to believe that such an environment would tend to favor greater portfolio diversification, with greater exposure to shorter-duration assets, real assets, and sectors such as energy, industrials, commodities, financials, and utilities. This would help provide ballast to equity portfolios in a world where inflation is likely to remain the dominant driver.

Conclusion

AI will matter for inflation. Over time, it should lower the cost of knowledge work, improve productivity, deepen competition, and ease some important capacity constraints. But it is unlikely, on its own, to recreate the pre-pandemic disinflationary golden-aged world we lived in previously. Its impact will be uneven: powerful in parts of the information economy, more modest in manufactured goods, and weakest in labor-intensive local services and care sectors where demand is likely to keep rising against constrained supply.

Investors should be cautious about treating AI as a simple repeat of the late-1990s disinflationary years. That period was supported by fiscal consolidation, globalization, favorable demographics, weaker labor bargaining power, cheap goods imports, and the credibility dividend from the Volcker-Greenspan disinflation. Today, many of those forces are absent or moving in reverse. While AI will help push some prices lower, deficits, demographics, energy needs, geopolitics, and supply-side frictions are likely to keep aggregate inflation stickier and more volatile than before. In this world, bonds are once again less reliable as automatic portfolio insurance, central banks have less room to respond to every growth scare, and portfolios should continue to be built for a regime in which productivity improves but inflation risk does not disappear.

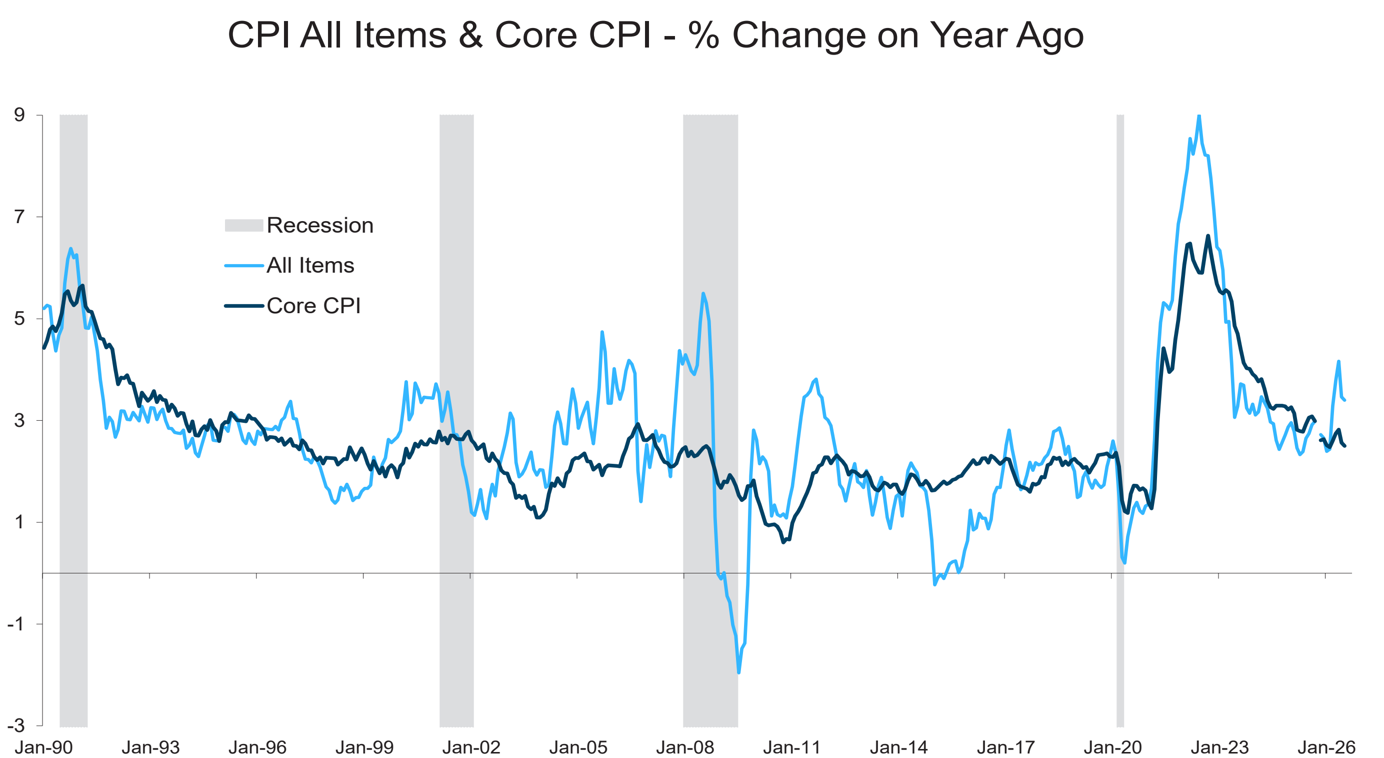
4 September 2026

Highlights in the Week Ahead

Date	Time (ET)	Indicator	Last	Consensus	WB Estimate	Actual
8 Sep	6:00 a.m.	NFIB Small Business Sentiment (August)	99.8	NA	NA	
10 Sep	8:30 a.m.	Producer Price Index (August)	0.0%	0.4%	0.4%	
		PPI Less-Food & Energy	0.2%	0.3%	0.3%	
11 Sep	8:30 a.m.	Consumer Price Index (August)	0.1%	0.4%	0.4%	
		CPI Less-Food & Energy	0.2%	0.2%	0.3%	

Sources: Bloomberg, William Blair Equity Research

Indicators of the Week: Consumer Price Index



Source: Bureau of Labor Statistics, William Blair Equity Research

Economic Scorecard

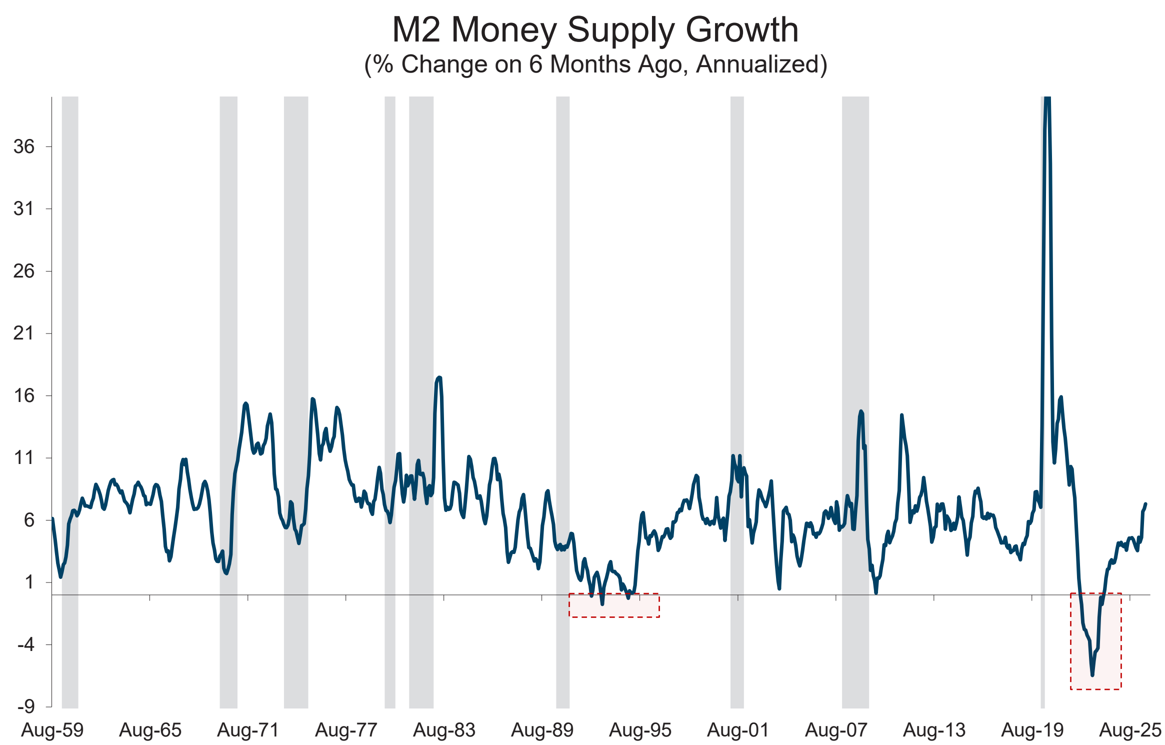
Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

	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	Sep-26
Growth																			
US Leading Indicators	-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	-1.1		
US Coincident Indicators	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	0.5		
US Lagging Indicators	-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	1.2		
Consumer																			
Total Retail Sales	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	5.2	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	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	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 (%)	5.1	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)**	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	89.4	
Employment																			
Employment Growth	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	-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	6.5	
ISM Employment Index Manufacturing*	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	51.2	
ISM Employment Index Services*	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	4.3	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	4.2	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)	223	226	233	239	222	231	234	226	221	219	213	216	208	208	215	223	199	206	
Jop Openings	-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	-0.3	2.6		
Layoff Announcements	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	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	-13.5		
New Home Sales	-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	-6.3		
Existing Home Sales	-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	0.7		
Median House Price (Existing Homes)	-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	-0.9		
Existing Homes Inventory (Mths' supply)	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	4.2		
New Homes Inventory (Mths' supply)	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	9.6		
NAHB Homebuilder Sentiment*	39	40	34	32	33	32	32	37	38	39	37	37	38	34	37	36	34		
Inflation																			
Consumer Price Index	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	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	3.2	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	3.8	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	2.4	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	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	0.6	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	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	13.2		
Business Inventories	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	0	
ISM Manufacturing PMI*	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	54.6	
Markit US Manufacturing PMI*	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	53.9	
ISM Services Index*	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*	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	56.8	
Business Activity - International																			
Germany Manufacturing PMI Markit/BME*	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	54.3	
Japan Manufacturing PMI Jibun Bank*	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	54.9	
Caixin China Manufacturing PMI*	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	51.5	
China Manufacturing PMI*	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	49.8	
UK Manufacturing PMI Markit/CIPS*	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	51.7	
France Manufacturing PMI Markit*	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	51.1	
Currencies***																			
Euro (EUR/USD)	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	-0.6	
Renmimbi (USD/CNY)	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	-5.8	
Yen (USD/Yen)	-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	8.6	
Sterling (GBP/USD)	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	0.3	
Canadian $ (USD/CAD)	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	0.8	
Mexican Peso (USD/MXN)	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	-8.9	
US Equities																			
S&P 500	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	19.0	
S&P 400 Midcap	-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	15.6	
S&P 600 Smallcap	-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	22.1	
Russell 2000	-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	24.9	

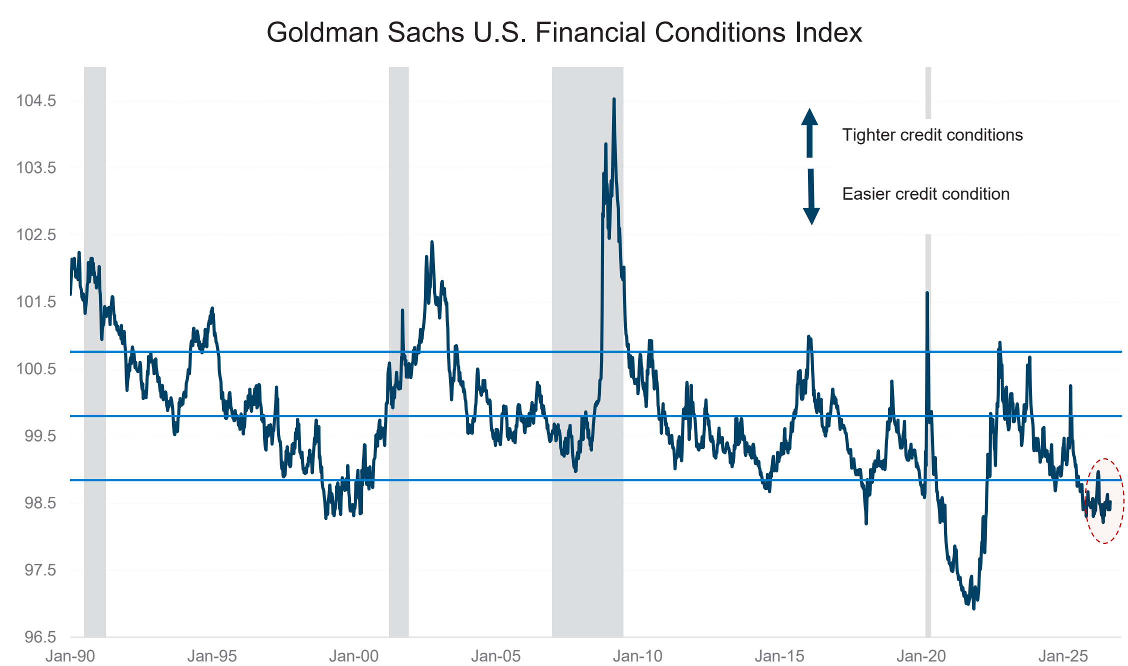
* Diffusion Index, **1985=100, ***Currencies - green/red = strengthening/weakening foreign currency vs dollar

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

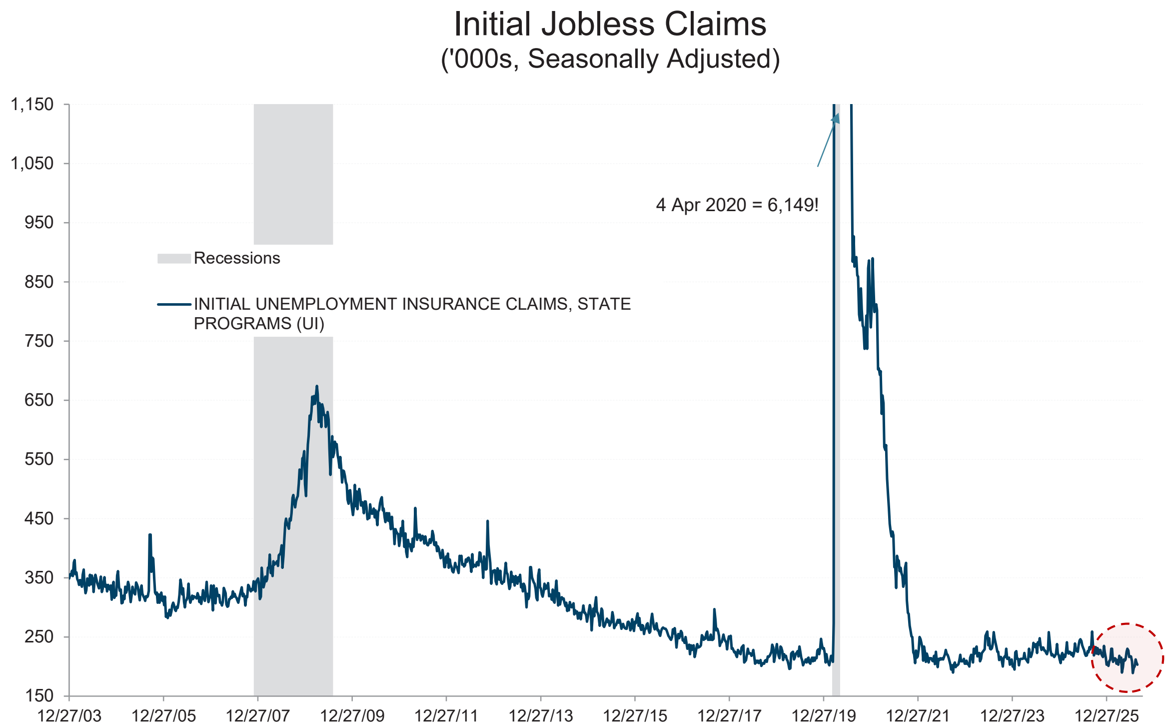
Other Economic Indicators



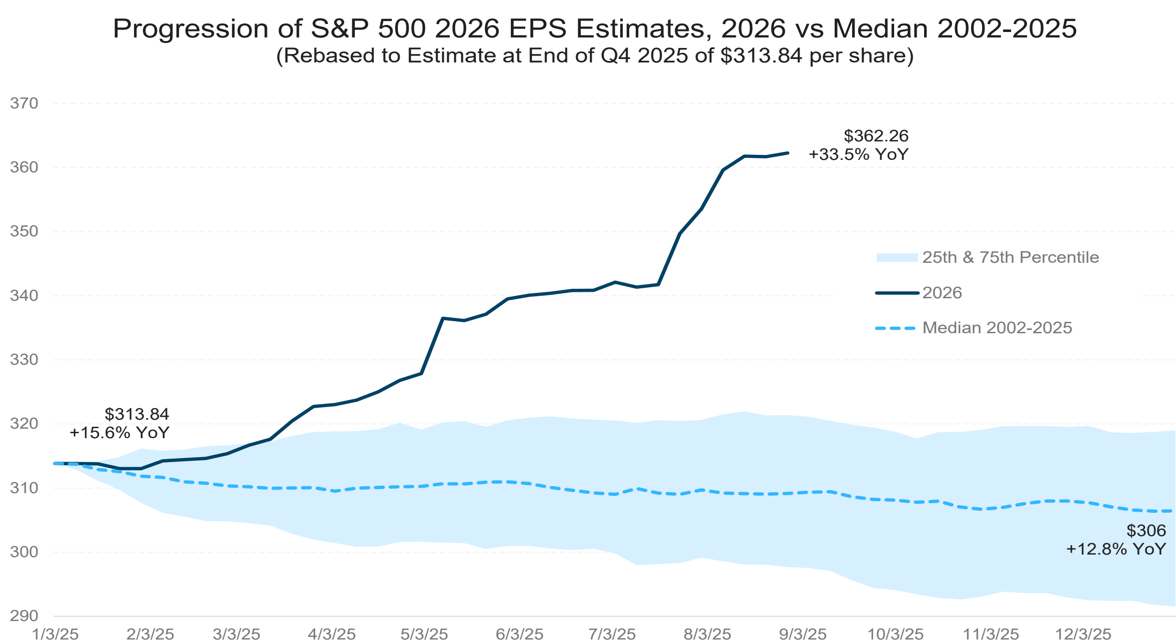
Sources: Federal Reserve, William Blair Equity Research



Sources: Bloomberg, William Blair Equity Research

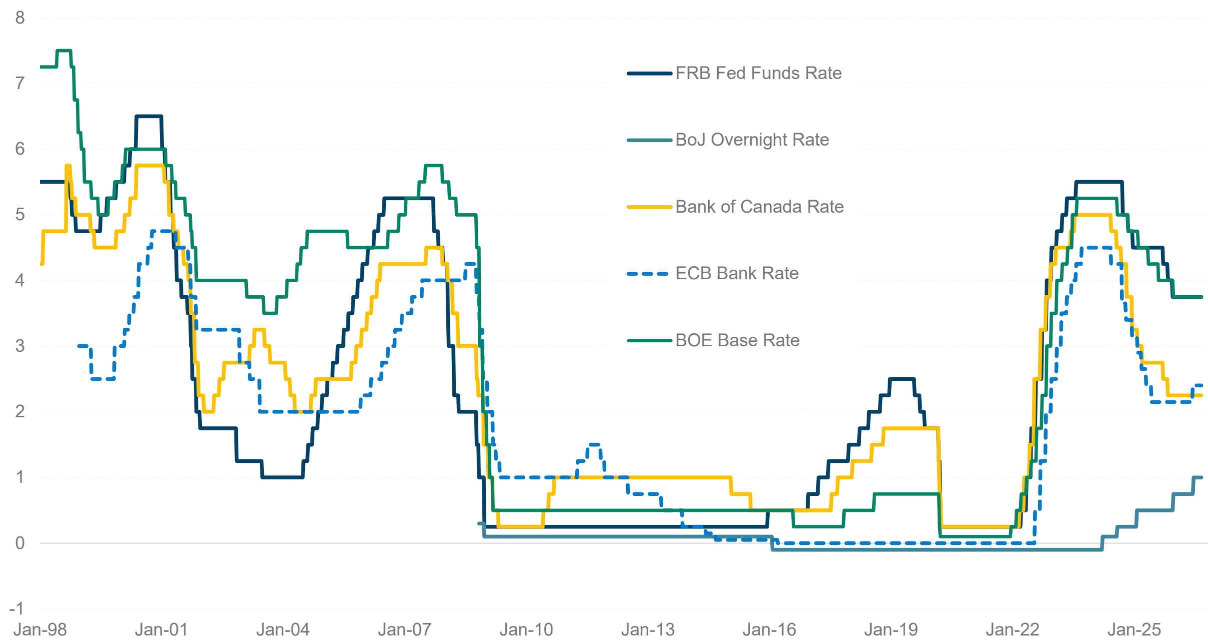


Source: Department of Labor, Bloomberg, William Blair Equity Research



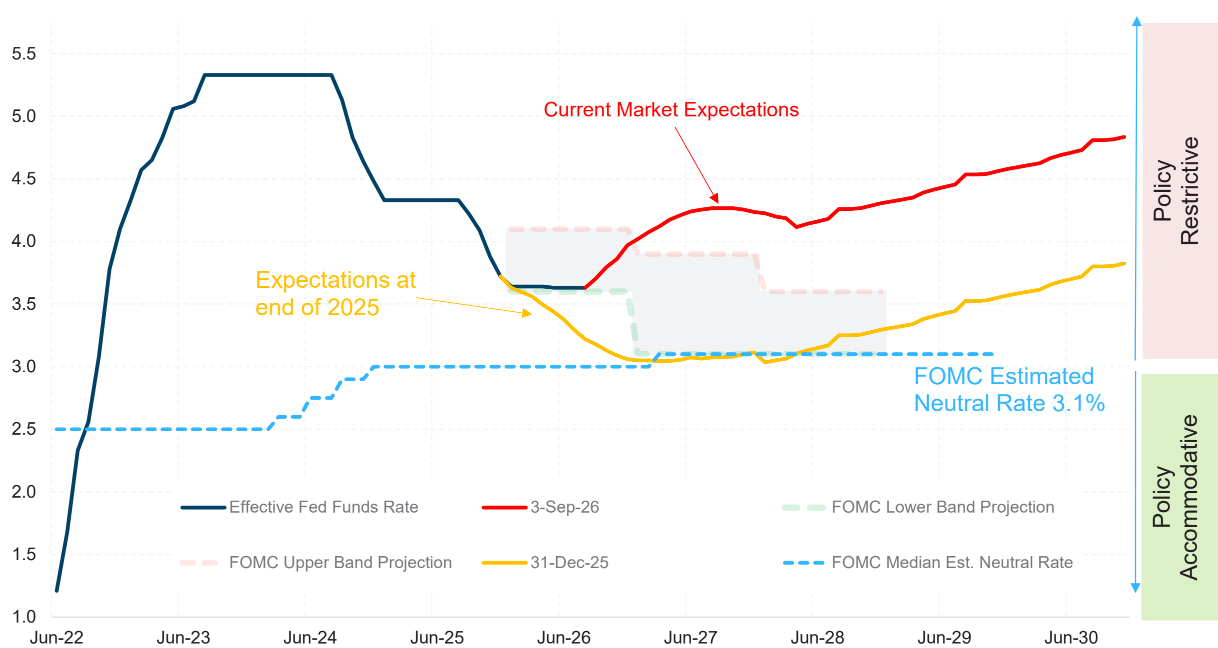
Sources: LSEG I/B/E/S, William Blair Equity Research

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* 03-Sep-26	Week Ago 27-Aug-26	Month Ago 03-Aug-26	Qtr-to-Date 30-Jun-26	Year-to-Date 31-Dec-25
S&P 500 Index	**100.00**	**0.22**	**1.94**	**3.31**	**13.18**
S&P 400 MidCap Index		**-1.19**	**-0.54**	**-1.89**	**14.36**
S&P 600 SmallCap Index		**-1.34**	**-2.20**	**-2.53**	**19.82**
Dow Jones Industrials		**0.22**	**0.95**	**2.61**	**11.70**
Nasdaq Composite		**0.16**	**2.59**	**1.41**	**14.38**
Communication Services	**9.58**	**2.05**	**-3.27**	**1.38**	**1.83**
Advertising	0.18	0.06	-17.70	-10.98	-34.71
Broadcasting	0.05	0.73	17.48	26.81	-8.68
Cable & Satellite	0.04	2.79	4.78	-3.39	-23.75
Integrated Telecommunication Services	0.68	2.30	8.68	19.62	9.99
Interactive Home Entertainment	0.06	-8.10	-11.76	-11.51	-12.38
Interactive Media & Services	7.35	2.14	-5.65	-1.04	3.82
Movies & Entertainment	0.92	1.75	10.33	11.99	-7.85
Publishing & Printing	0.02	-1.04	10.33	24.38	18.12
Wireless Telecommunication Svcs	0.28	5.77	6.17	12.10	-7.40
Consumer Discretionary	**9.46**	**0.81**	**-2.84**	**0.56**	**-0.55**
Apparel Retail	0.31	-0.75	-13.62	-6.48	-3.10
Apparel & Accessories & Luxury Goods	0.07	0.55	-13.98	-10.91	-17.24
Auto Parts & Equipment	0.01	2.40	-18.70	-24.19	-29.70
Automobile Manufacturers	2.26	5.61	14.61	-8.67	-14.09
Automobile Retail	0.24	-0.15	1.69	-1.25	-9.28
Broadline Retail	3.97	1.07	-8.72	8.34	12.33
Casinos & Gaming	0.07	-1.52	-6.61	-7.23	-20.94
Computer & Electronics Retail	0.03	4.70	2.63	15.30	30.72
Consumer Electronics	0.07	-4.38	-9.05	16.69	36.64
Distributors	0.03	0.67	7.08	16.65	11.38
Footwear	0.08	0.23	-10.37	-7.63	-35.74
Home Furnishings	0.01	1.46	-0.97	8.54	20.49
Home Improvement Retail	0.60	-2.98	-6.02	-9.45	-10.03
Homebuilding	0.14	-0.82	-1.27	-9.18	-4.87
Hotels, Resorts & Cruise Lines	0.74	-3.92	-1.67	0.56	0.83
Leisure Products	0.02	-1.25	1.68	12.61	13.41
Restaurants	0.73	-0.67	1.77	3.25	-1.31
Other Specialty Retail	0.06	1.65	5.72	17.09	-19.30
Consumer Staples	**4.85**	**0.62**	**-0.09**	**1.54**	**8.36**
Agricultural Products	0.09	6.96	9.71	11.04	43.15
Brewers	0.01	-2.62	-3.22	4.13	-13.09
Consumer Staples Merchandise Retail	2.10	2.05	-1.81	-0.53	4.78
Distillers & Vintners	0.04	-1.25	-1.60	-5.23	-4.28
Food Distributors	0.05	-1.66	-4.59	-2.99	10.03
Food Retail	0.09	1.18	-5.56	0.57	1.64
Household Products	0.68	1.13	0.84	-0.20	4.84
Packaged Foods & Meats	0.29	-2.16	-0.84	4.43	0.00
Personal Care Products	0.09	-2.86	6.77	9.09	3.93
Soft Drinks	0.98	-0.45	1.09	4.90	14.87
Tobacco	0.57	-0.90	0.03	1.02	17.32
Energy	**3.33**	**3.88**	**9.04**	**21.20**	**42.99**
Integrated Oil & Gas	1.61	4.37	6.45	21.89	36.60
Oil & Gas Equipment & Services	0.25	3.81	12.09	17.78	42.76
Oil & Gas Exploration & Production	0.63	2.83	7.06	17.49	32.77
Oil & Gas Refining & Marketing & Transportation	0.44	6.61	23.42	48.06	120.59
Oil & Gas Storage & Transportation	0.40	0.58	6.06	3.73	29.32

Financials	**11.67**	**1.06**	**1.94**	**8.88**	**6.64**
Asset Management & Custody Banks	1.00	-1.27	2.33	15.90	8.94
Consumer Finance	0.54	0.01	-1.59	2.77	-9.63
Diversified Banks	3.04	2.77	1.65	7.57	11.45
Diversified Financial Services	6.79	0.26	2.71	10.28	4.45
Financial Exchanges & Data	0.84	0.95	7.53	21.32	-1.98
Insurance Brokers	0.40	-1.16	-1.24	11.48	-0.99
Investment Banking & Brokerage	1.41	1.86	5.49	8.79	17.51
Life & Health Insurance	0.29	2.58	-1.10	9.10	16.89
Multi-Sector Holdings	0.99	0.88	-0.98	1.55	1.09
Property & Casualty Insurance	0.87	1.96	0.71	4.31	7.93
Regional Banks	0.26	1.36	-2.09	0.90	9.56
Reinsurance	0.02	2.27	3.81	8.12	13.82
Transaction & Payment Processing	1.90	-0.73	2.80	12.90	4.57
Health Care	**9.05**	**0.97**	**6.70**	**8.90**	**11.69**
Biotechnology	1.72	1.60	14.60	15.02	24.74
Health Care Distributors	0.34	4.30	9.15	16.12	10.80
Health Care Equipment	1.30	-0.89	-0.22	9.05	-16.89
Health Care Facilities	0.14	-2.36	0.57	5.98	-13.75
Health Care Services	0.37	2.71	-3.06	0.30	19.31
Health Care Supplies	0.06	0.60	-2.37	3.98	-0.11
Life Sciences Tools & Services	0.83	-1.72	7.51	16.90	6.11
Managed Health Care	0.74	2.23	-0.06	-0.80	25.49
Pharmaceuticals	3.49	1.39	8.14	6.31	20.26
Industrials	**7.83**	**-2.46**	**-4.80**	**-5.99**	**12.30**
Aerospace & Defense	1.98	-3.33	-8.85	-4.30	3.25
Agricultural & Farm Machinery	0.26	11.52	14.77	9.47	49.15
Air Freight & Logistics	0.27	-2.15	1.56	-1.19	17.06
Building Products	0.40	-1.07	-4.33	-10.45	9.25
Cargo Ground Transportation	0.12	-4.33	-8.21	-12.83	24.38
Construction & Engineering	0.25	-1.62	-9.53	-15.41	47.17
Construction Machinery & Heavy Trucks	0.78	-2.71	-5.86	-20.19	30.21
Data Processing & Outsourced Services	0.03	-2.28	13.71	30.64	-19.83
Diversified Support Svcs	0.16	-0.33	2.87	18.48	-0.53
Electrical Components & Equipment	0.67	-3.20	-5.22	-9.75	15.49
Environmental & Facilities Services	0.28	1.54	0.86	1.55	-2.55
Heavy Electrical Equipment	0.35	-1.26	-6.45	-19.83	44.11
Human Resource & Employment Services	0.22	-0.59	5.41	26.76	11.36
Industrial Conglomerates	0.24	-5.81	-9.71	-0.65	7.59
Industrial Machinery	0.56	-3.89	-5.08	-3.55	2.35
Passenger Airlines	0.15	-3.01	-15.16	-19.02	3.82
Passenger Ground Transportation	0.22	-1.29	6.07	5.26	-7.04
Railroads	0.47	-5.68	-1.40	4.95	24.79
Research & Consulting Svcs	0.11	-1.82	5.44	16.10	-12.76
Trading Companies & Distributors	0.31	-3.19	-6.37	-6.63	22.97
Information Technology	**35.58**	**-0.44**	**5.09**	**3.10**	**23.13**
Application Software	1.79	-2.76	19.58	25.46	-11.91
Communications Equipment	1.25	-5.36	-2.55	-3.44	38.74
Electronic Components	0.53	-2.13	-1.12	-25.53	30.99
Electronic Equipment & Instruments	0.14	-1.55	0.36	-2.85	42.87
Electronic Manufacturing Services	0.19	-1.13	-2.59	-16.37	-3.75
Internet Software & Services	0.08	0.15	-0.18	8.57	8.24
IT Consulting & Services	0.53	0.01	9.16	4.12	-24.18
Semiconductor Equipment	1.42	-8.17	-7.97	-37.30	62.72
Semiconductors	14.68	-1.11	4.66	-2.44	33.04
Systems Software	7.00	-0.33	4.75	29.75	8.75
Technology Distributors	0.03	3.32	4.20	9.44	13.00
Technology Hardware, Storage & Peripherals	7.94	3.76	7.72	7.88	32.85
Materials	**1.71**	**-1.46**	**4.19**	**3.69**	**15.18**
Commodity Chemicals	0.06	1.20	3.78	15.87	37.74
Construction Materials	0.18	-4.05	-6.96	-12.86	-20.22
Copper	0.15	-7.47	14.02	15.38	42.86

Fertilizers & Agricultural Chemicals	0.12	8.01	16.56	10.67	37.59
Gold	0.19	-1.41	36.76	39.65	30.63
Industrial Gases	0.41	-0.59	1.15	-4.76	15.29
Metal & Glass Containers	0.02	-0.69	-3.41	0.85	18.80
Paper Packaging	0.14	-4.93	-4.81	0.27	6.11
Specialty Chemicals	0.31	-2.72	-1.32	-1.36	6.59
Steel	0.13	4.12	-1.48	13.80	54.90
Real Estate	**1.71**	**-0.90**	**-1.89**	**0.78**	**10.53**
Data Center REITs	0.24	-2.90	-0.16	1.63	30.16
Health Care REITs	0.34	0.26	2.50	5.00	26.89
Hotel & Resort REITs	0.02	-1.57	-12.36	-7.25	27.72
Industrial REITs	0.18	-2.47	-4.02	2.12	8.37
Multi-Family Residential REITs	0.00	-0.77	-3.92	-5.58	0.01
Office REITs	0.02	-2.48	-3.09	2.90	1.12
Other Specialized REITs	0.09	-3.75	-5.58	-6.54	12.48
Real Estate Service	0.08	1.04	1.37	10.76	-24.61
Retail REITs	0.23	-0.60	-5.52	-3.66	12.70
Self-Storage REITs	0.12	-1.58	-6.07	-3.56	13.99
Single-Family Residential REITs	0.12	-1.58	-6.07	-3.56	13.99
Telecom Tower REITs	0.19	2.34	2.79	6.93	-3.00
Timber REITs	0.02	-2.79	-8.68	-3.76	-2.74
Utilities	**1.89**	**-0.46**	**-3.45**	**-5.58**	**0.27**
Electric Utilities	1.24	-1.23	-3.76	-5.27	-0.33
Gas Utilities	0.04	1.14	-2.18	-1.83	0.89
Independent Power Producers & Energy Traders	0.08	2.59	-6.12	-7.38	-8.33
Water Utilities	0.04	3.07	7.31	7.07	7.97
Multi-Utilities	0.49	0.64	-3.08	-7.19	2.76

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

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DOW JONES: 53686.10
S&P 500: 7747.71
NASDAQ: 26584.10

Additional information is available upon request.

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Market Perform (Hold)	28	Market Perform (Hold)	4
Underperform (Sell)	1	Underperform (Sell)	0

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