Eye on the Market Express: November 2015

MARKET DATA				
	October	3 Mo.	YTD	1 Year
S&P 500	8.30%	-1.16%	0.99%	3.04%
Russell 2000	5.56%	-6.20%	-3.56%	-0.99%
NASDAQ	9.38%	-1.45%	6.71%	2.82%
MSCI EAFE ($ basis)	7.74%	-5.75%	-0.18%	-2.57%
MSCI EAFE (local)	7.84%	-5.67%	4.48%	6.37%
UK (FTSE)	4.94%	-5.01%	-3.12%	-2.83%
Germany (DAX)	12.32%	-4.06%	10.65%	16.33%
Japan (NIKKEI)	5.42%	-9.24%	7.06%	13.83%
MSCI Emerging Markets ($ basis)	7.04%	-5.97%	-11.34%	-16.56%
Barclays Aggregate	0.02%	0.55%	1.14%	1.96%

All market data as of the end of October 2015. Quoted index returns are based on month end index prices (in local currency except where noted) and do not include dividends.

U.S. ECONOMIC DATA				
	October	Prior Month	Beginning of Year	1 Year Prior
10 year Treasury Yield	2.15%	2.06%	2.17%	2.33%
Gold (London pm fixing per ounce in dollars)	1,142	1,114	1,199	1,164
Oil ($ per barrel)	46.60	45.15	53.27	80.54
VIX Index	15.07	24.50	12.80	14.03

All economic and market data as of the end of October 2015.

The Federal Open Market Committee (FOMC) concluded its October monetary policy meeting by keeping the benchmark Federal Funds rate unchanged in a range of 0-0.25%. The outcome of the FOMC meeting had been broadly anticipated because of the Fed's dovish September statement, weaker employment data, and because the meeting had no scheduled press conference. However, the content of October's statement differed from September's by including some hawkish comments, suggesting the FOMC is still strongly considering raising rates when it meets in December. After noting in September's statement that recent global financial developments could restrain economic activity and put downward pressure on inflation, this comment was noticeably absent from October's statement. September's reference to global economic concerns had been a first for the Fed, which normally focuses on domestic indicators. The omission of this comment in October's statement suggests that the FOMC could raise the Federal Funds rate even if there are concerns about the global economy. The October statement also deviated from previous statements by stating that the FOMC will assess progress towards its objectives of maximum employment and two percent inflation at its next meeting in December. It is unusual for the committee to single out a particular meeting. On its face, this does not appear to be significant, but the FOMC statements vary very little from meeting to meeting, meaning all modifications are viewed as deliberate indications of the committee's intentions. Many market participants interpreted this specific reference to the December meeting as an indication that a rate rise is still very possible, especially since so many FOMC members have publicly stated their intention to raise rates at some point in 2015.

Economic data released in October was mixed but on balance mildly disappointing. Housing data this month was mixed. On the positive side, existing home sales in September beat expectations, coming in at a seasonally adjusted annual rate of 5.55 million when only a 5.39 million rate had been expected, and home prices, as measured by the S&P/Case-Shiller 20-city home price index, were in line with expectations, rising by 0.1% in August. However, new home sales for September missed expectations and declined to a 468,000 annualized pace; new home sales for August were revised lower as well. Pending home sales for September were also disappointing, posting a 2.3% decline when a 1.0% gain had been anticipated. Turning to the consumer, data released this month generally was less strong than anticipated. Personal spending and retail sales for September both grew by less than expected at a 0.1% rate for September. The two primary measures of consumer outlook diverged again this month with the Conference Board's consumer confidence index declining more than expected to 97.6 and the University of Michigan consumer sentiment index bouncing back from a low reading in September to 90.0, although the increase was less than expected. Manufacturing, as measured by the Institute of Supply Management (ISM) manufacturing index, missed expectations and fell to 50.2, although any reading over 50 signals expansion. The decline was mostly due to disappointing new orders and export orders. The ISM non-manufacturing index also declined by more than expected this month to 56.9. This index accounts for a much larger segment of the U.S. economy than the manufacturing index, and while this reading missed expectations, it had been at its highest levels since 2005 in the preceding couple months. In the labor market, weekly jobless claims figures were a bright spot and continued to be encouragingly low, ranging from 255,000 to 277,000. However, other data regarding labor was less positive. Non-farm payrolls for September came in at 142,000 new jobs when 201,000 had been expected, and the previous two months' figures were revised down by 59,000 jobs. The unemployment rate held steady at 5.1%, but labor force participation, which was already at historic lows, ticked down again. Wage growth also disappointed as average hourly earnings were flat and personal income only grew by 0.1% in September. Inflation as measured by the Fed's preferred metric, the Personal Consumption Expenditure (PCE) index, declined by 0.1%, as expected. Year-over-year the PCE is up 0.2%, but if more volatile food and energy prices are stripped out, it is up 1.3%, which is still below the Fed's 2% target. Finally, the first reading for third quarter GDP came in at 1.5% when a 1.6% gain had been expected. While this is a relatively low rate of growth, it is mostly attributed to a decline in inventories, which most forecasters view as a temporary event.

After two months of relatively steep declines, domestic equity markets bounced back sharply in October and started the fourth quarter on a positive note. The benchmark S&P 500 rose by 8.30%, bringing its year-to-date return out of negative territory to a gain of 0.99%. Small cap stocks, as measured by the Russell 2000 Index, underperformed the broader market last month, growing by 5.56%, and its year to date return is still a loss of 3.56%. The tech heavy NASDAQ Composite had the strongest performance for the month posting a 9.38% gain, and for the year it is up 6.71%. Drilling down into sector performance, materials, energy, and information technology all posted double digit gains in October, returning 13.52%, 11.44%, and 10.76%, respectively. This was a reversal for energy and materials, which had been the worst performing sector in the third quarter. All sectors posted gains for the month, but the worst performing sectors were utilities, consumer staples, and financials, which rose by 1.09%, 5.82%, and 6.24%, respectively. As of the end of October, 68% of S&P 500 companies had reported earnings, and according to FactSet, a data provider, earnings are estimated to decline by 2.2% this quarter. If estimates hold, then this will be the first back-to-back earnings decline or earnings recession since 2009. The decline in earnings is mostly attributable to energy and materials firms that have been hit hard by low commodity prices. International stocks also rose in October with the benchmark MSCI EAFE Index growing by 7.84% on a local currency basis, which when translated into dollars resulted in a 7.74% gain. In developed markets, the Eurozone slipped into mild deflation in September as prices declined by 0.1% according to Eurostat, and at a press conference following a meeting of the European Central Bank (ECB) its president, Mario Draghi, indicated it was possible the ECB could announce more accommodative monetary policy after it met in December. The German DAX bounced back after a bad September to grow by 12.32%, and it is once again positive for the year. British stocks also rose for the month with the FTSE 100 gaining 4.94% in October, although it is still down 3.74% for the year. Japan has also had mild deflation with its consumer price index falling 0.1% in the last two months. Although many had thought the Bank of Japan would announce more accommodative monetary policy in light of prices declines, no changes were announced after its October meeting. The Japanese Nikkei 100 rose by 5.42% for the month and is up 7.06% for the year. Emerging Market stocks, as measured by the MSCI Emerging Market Index, rose by 7.04% in October but it is still down 11.34% for the year. China reported third quarter GDP growth of 6.9%, its lowest since 2009, and the People's Bank of China cut interest rates for a sixth time this year. Despite slowing growth, the Chinese stock market, as measured by the Shanghai Composite Index, rose by 10.8% for the month.

Fixed income prices were mixed this month with credit indices posting gains and interest rate sensitive indexes delivering mild losses, as the yield on the benchmark 10-year Treasury note increased from 2.06% to 2.15% in October. The benchmark Barclays Aggregate Bond Index was nearly flat for the month with a 0.02% gain, and for the year it is up 0.88%. The best performing sector was high yield bonds with the Barclays U.S. Corporate High Yield Index gaining 2.75% for the month, and 0.56% for the year. The worst performing sector for the month was long maturity Treasury notes which, as measured by the Barclays Long Term U.S. Treasury index, lost 0.55% for the month and is down 1.47% for the year.

Commodity prices moved up modestly in October with the benchmark Reuters/Jefferies CRB Index gaining 0.95% for the month, but it is still down 14.94% year-to-date. One standout this month was sugar, which gained 12.73% as measured by the change in its spot price. Sugar's rise is attributed to heavy rains and higher energy prices in Brazil, the world's largest sugar producer. Other commodity movements were less drastic with WTI crude oil prices rising from $45.15 at the start of the month to $46.12, and gold prices rising 2.45% from $1,114 to $1,142 an ounce. Finally, volatility, as measured by the VIX, declined again from 24.40 to 15.7.

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INDEX	DESCRIPTION
10 Year Treasury	The closing yield on 10-year Treasury notes calculated on a daily basis. Data sourced from the Federal Reserve.
Barclays Capital Aggregate Bond Index	A broad based index used to represent performance of investment grade bonds traded in the United States. The index includes Treasury securities, government related and corporate securities, mortgage-backed securities and asset-backed securities.
Barclays Municipal Bond Index	An unmanaged index considered representative of the tax-exempt bond market.
BofAML Masters II High Yield Index	An unmanaged index tracks the performance eof below investment grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.
Conference Board Consumer Confidence	An indicator used to measure consumer confidence in the economy produced by the Conference Board on a monthly basis based upon a survey of 5,000 households.
DAX (Germany)	A total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange.
Dow Jones Industrial Average	An unmanaged index of 30 widely held securities.
Federal Funds Rate	Targeted interest rate at which depository institutions lend to each other overnight. The rate is targeted by the Federal Open Market Committee (FOMC).
FTSE (UK)	A capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange.
FTSE NAREIT All REITs Index	Market capitalization weighted index that includes all tax-qualified REITs listed on the New York Stock Exchange.
GDP	A measure of broad economic output in the United States produced by the US Bureau of Economic Analysis on a quarterly basis with revisions made monthly.
Gold	Value of gold based upon the afternoon fix (15:00 GMT) in London each afternoon.
ISM	A measure of manufacturing activity reported by the Institute of Supply Management each month. A reading over 50 signifies growth in manufacturing during the month.

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MSCI EAFE	A widely accepted benchmark of foreign stocks. It comprises 21 MSCI country indices, representing the developed markets outside North America: Europe, Australasia and the Far East.
MSCI Emerging Markets	A widely accepted benchmark of emerging markets stocks. It is a float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets.
NASDAQ	An unmanaged index of all stocks traded on the NASDAQ over-the-counter market.
Nikkei (Japan)	An unmanaged price-weighted index of 225 widely held stocks listed in Japan.
Oil	Closing value of light, sweet crude oil futures in the near month.
Retail Sales	A measure of retail sales compiled monthly by the US Department of Commerce
Russell 2000	An unmanaged index of small cap securities.
S & P 500	An unmanaged index of 500 widely held stocks.
Shanghai Composite	Index of all listed (A and B share class) stocks traded on the Shanghai Stock Exchange.
Thomson-Reuters Jefferies CRB Index	A widely accepted benchmark of commodity prices. The index is designed to provide a representation of long-only broadly diversified investment in commodities.
Unemployment	A measure of unemployment compiled monthly by the US Bureau of Labor Statistics.
VIX Index	Measure of market expectations of near-term volatility based on S&P 500 stock option prices.