Eye on the Market Express: September 2015

MARKET DATA				
	August	3 Mo.	YTD	1 Year
S&P 500	-6.26%	-6.42%	-4.21%	2.15%
Russell 2000	-6.40%	-6.99%	-3.76%	3.52%
NASDAQ	-6.86%	-5.79%	-2.15%	9.31%
MSCI EAFE ($ basis)	-7.60%	-8.54%	-2.15%	-10.13%
MSCI EAFE (local)	-7.89%	-9.06%	2.02%	4.14%
UK (FTSE)	-6.70%	-10.54%	-4.85%	-7.16%
Germany (DAX)	-9.28%	-10.11%	4.63%	9.06%
Japan (NIKKEI)	-8.23%	-7.09%	8.90%	9.58%
MSCI Emerging Markets ($ basis)	-9.20%	-18.47%	-14.39%	-23.18%
Barclays Aggregate	-0.14%	-0.55%	0.45%	2.62%

All market data as of the end of August 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				
	August	Prior Month	Beginning of Year	1 Year Prior
10 year Treasury Yield	2.20%	2.21%	2.17%	2.34%
Gold (London pm fixing per ounce in dollars)	1,135	1,098	1,199	1,286
Oil ($ per barrel)	49.20	47.12	53.27	95.96
VIX Index	28.43	12.12	12.80	12.09

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

After voting at the end of July to leave the benchmark Federal Funds rate unchanged in a range of 0-0.25%, the Federal Open Market Committee (FOMC) did not meet in August. It did, however, release the minutes from its July meeting. The minutes indicate that "Most [FOMC members] judged that the conditions for policy firming had not yet been achieved, but they noted that conditions were approaching that point." However, while some economic data, especially unemployment figures, has supported raising the Federal Funds rate, the minutes also stated “almost all members…would need to see more evidence that economic growth was sufficiently strong and labor market conditions had firmed enough for [the FOMC] to feel reasonably confident that inflation would return to the committee’s longer-run objective over the medium term.” The FOMC meeting minutes were almost a month old when released, and while domestic economic data has been generally positive since then, global economic growth concerns mounted towards the end of the month. In light of this mixed data, market participants have scrutinized comments from Fed leaders, which have also been viewed as mixed. At the end of the month New York Federal Reserve President William Dudley said the case for a rate hike in September was “less compelling…than it was a few weeks ago,” which was viewed as a dovish remark. On the other hand Fed Vice Chairman Stanley Fischer’s comments at the annual Jackson Hole conference that “there is good reason to believe that inflation will move higher as the forces holding inflation down – oil prices and import prices, particularly – dissipate further,” was viewed as a hawkish comment.

Economic data released in August was mixed but generally positive on balance. After home sales disappointed in June, they rebounded in July. Existing home sales beat expectations, coming in at a 5.59 million annualized pace, and new home sales came in at a 507,000 annualized pace. However, home prices as measured by the S&P/Case-Shiller 20-city home price index declined modestly by 0.1% in July, bringing the annual increase to 5%, which was slightly below expectations. While housing data was mixed, consumption data was generally positive. Retail sales increased 0.6% in July and were in line with expectations. In addition, June’s retail sales were revised from a 0.3% contraction to no growth for the month. Personal spending and personal income data for June and July were released this month, and both data points increased in both months. Wholesale and business inventories grew by more than expected in June, posting increases of 0.9% and 0.8% respectively when only 0.4% and 0.3% increases had been expected. Additionally, the Conference Board’s consumer confidence index grew to 101.5 in July when only a reading of 93.4 had been expected. The Institute for Supply Management’s (ISM) manufacturing index came in at 52.7 for the month. Anything over 50 indicates expansion, but this was a decline from the prior month. However, the ISM’s non-manufacturing index, which captures the larger service industry, was much stronger than expected, coming in at 60.3, its highest level since 2005. Labor market data points missed expectations, but were generally positive. Weekly initial jobless claims during the month were relatively low and steady, ranging from 271,000 to 277,000 claims per week. Non-farm payrolls also came in slightly lower than expectations at 215,000 additions in July. In addition, revisions from the previous two months added another 14,000 to non-farm payroll readings. The unemployment rate remained unchanged from the prior month at 5.3%, and year over year hourly earnings were up 2.1%. Inflation has remained muted, which should weigh on the Fed's decision when to raise the Federal Funds rate. The Personal Consumption Expenditure index, the Fed's preferred measure of inflation, increased 0.1% in July, and even when the more volatile energy and food prices are stripped out, the core PCE index still rose by only 0.1%. Year-over-year the PCE is up only 0.3%, and core PCE is up 1.2%, which is below the Fed's 2% target. While inflation has struggled, second quarter GDP was revised higher from 2.3% to 3.7%, driven mostly by higher business investment and government spending than previously thought.

After little movement in the first half of the month, domestic equity markets declined relatively sharply at the end of August. The benchmark S&P 500 declined by 6.26% for the month, bringing the index into negative territory for the year with a 4.21% loss. Small cap stocks, as measured by the Russell 2000 Index, also erased their year to date gains in August. The index declined 6.40% in August, and year to date it is down 3.76%. Of the domestic indexes we review each month, the tech heavy NASDAQ composite performed the worst in August, losing 6.86% for the month, and it too saw its year to date gains disappear. It is now down 2.15% for 2015. Drilling down into sector performance, all posted negative returns in August. Telecoms and utilities were the best performing sectors for the month, losing 3.36% and 3.44% respectively. While energy has been the worst performing sector for the year, losing 14.52% since the start of the year, health care and financials suffered the most this month. Health care declined 7.88% in August and financials lost 6.76%. Over 90% of S&P 500 companies had reported earnings results by the end of August, and according to data provider FactSet, earnings declined 0.7% year-over-year, the first year-over-year decline since 2012. The decline was largely attributed to declining earnings from the energy sector. If energy is excluded, earnings rose 5.9% year-over-year.

International stocks also declined in August with the benchmark MSCI EAFE Index declining by 7.89% on a local currency basis, which when translated into dollars resulted in a 7.60% decline. Despite reporting relatively strong GDP growth of 0.4% in the second quarter, the German DAX, which has been one of the best performing equity indexes this year, declined by 9.28% in August, although it is still posting a 4.63% gain for the year. Britain also released positive GDP numbers this month, showing growth of 0.7% for the quarter, but the FTSE 100 declined by 6.70% in August, and it is down 4.85% for the year. Japan reported that its economy contracted by 1.6% in the second quarter due to declining exports and lower household spending. Japanese equities, as measured by the Nikkei sold off 8.23%, but the index is still up 8.90% for the year. The global selloff in equities this month appears to have been triggered by concerns that global economic growth is slowing, primarily in China, which had driven an outsized share of global growth in recent years. Market participants were surprised on August 11, when the People's Bank of China allowed the yuan to depreciate by 2%. The yuan devaluation came amidst several negative manufacturing data points in China, which caused further concerns over the health of the world's second largest economy. This put pressure on currencies of other developing economies, especially those that were dependent on Chinese demand for their own economic growth such as commodity exporting countries. The MSCI Emerging Market index declined 9.20% in August, and it is down 14.39% for the year. In addition to concerns regarding China's economy, other emerging markets published negative economic data this month. Both Brazil and Russia reported that their GDPs contracted in the second quarter with Brazil's declining by 1.9% and Russia's by 4.6%.

Fixed income prices also declined modestly during August with the benchmark Barclays Aggregate declining by 0.14%, as investors tried to ascertain when the Fed would raise interest rates. The yield on the benchmark 10-year Treasury note ended the month at 2.20%, which is very close to the 2.21% it started the month at. Most fixed income sectors were flat or negative in August. Long duration fixed income, as measured by Barclays Long Term US Treasury index, ended the month almost even posting a small loss of 0.02% for the month. High yield bonds had the worst returns for the month, and declined by 1.76% in August on concerns about global economic growth and continued low energy prices. Municipal bonds were a minor bright spot this month, rising 0.20%, despite continued uncertainty regarding Puerto Rico and its ability to restructure its $72 billion in municipal debt its government has deemed "unpayable." The island was supposed to present a restructuring plan by the end of August, but it pushed this deadline back to mid-September.

Commodity prices declined in August with the benchmark Reuters/Jefferies CRB Index losing 0.24%, bringing its year-to-date loss to 12.12%. Commodity declines were broad based with most metals and almost all agricultural commodities losing value during the month. In a reversal of recent trends, oil prices rose this month with WTI crude moving up to $49.20 after declining to $38.22 during some of the most volatile trading days at the end of the month. Gold also posted positive returns this month, rising from $1,098 an ounce at the beginning of the month to $1,135 an ounce at the end. Finally, volatility, as measured by the VIX index rose in August. The VIX hit a 2015 high of 53.29 in August before closing the month at 28.43. Its' long run average is 20.

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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 of 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.
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.