



Eye on the Market Express: October 2015

MARKET DATA				
	September	3 Mo.	YTD	1 Year
S&P 500	-2.64%	-6.94%	-6.74%	-2.65%
Russell 2000	-5.07%	-12.22%	-8.63%	-0.09%
NASDAQ	-3.27%	-7.35%	-2.45%	2.82%
MSCI EAFE (\$ basis)	-5.32%	-10.75%	-7.35%	-10.92%
MSCI EAFE (local)	-5.03%	-9.50%	-3.12%	-1.70%
UK (FTSE)	-2.98%	-7.04%	-7.68%	-8.47%
Germany (DAX)	-5.84%	-11.74%	-1.48%	1.96%
Japan (NIKKEI)	-6.18%	-12.42%	1.56%	9.58%
MSCI Emerging Markets (\$ basis)	-3.26%	-18.53%	-17.18%	-21.21%
Barclays Aggregate	0.68%	1.23%	1.13%	2.94%

All market data as of the end of September 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				
	September	Prior Month	Beginning of Year	1 Year Prior
10 year Treasury Yield	2.06%	2.20%	2.17%	2.49%
Gold (London pm fixing per ounce in dollars)	1,114	1,135	1,199	1,217
Oil (\$ per barrel)	45.15	49.20	53.27	91.16
VIX Index	24.50	28.43	12.80	16.31

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

The Federal Open Market Committee (FOMC) concluded its September monetary policy meeting by keeping the benchmark Federal Funds rate unchanged in a range of 0-0.25%. For the first time in five sessions, the FOMC was not unanimous in this decision with Jeffrey Lacker of the Federal Reserve Bank of Richmond voting to raise the target range of the Federal Funds rate by 25 basis points. The Federal Reserve (the Fed) has a dual mandate to foster maximum employment and moderate inflation. At the press conference following the FOMC meeting, Federal Reserve Chair



Janet Yellen touched on both these factors. Regarding the labor market she stated that while unemployment figures have been encouraging “there are additional margins of slack, particularly relating to very high levels of part-time involuntary employment and labor force participation.” Looking at inflation, which has consistently been below the Fed’s target, Yellen stated “I continue and the committee continues to expect that inflation will move back to 2 percent,” and referred to the decline in oil prices and strengthening of the U.S. dollar, both of which are deflationary pressures, as “transitory.” The FOMC typically focuses on the domestic economy, but in light of recent concerns regarding global growth the FOMC stated in its press release that “recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term.”

Economic data released in September was mixed but featured several positive revisions to data from previous months. After a generally strong July, housing data in August was mixed. Existing home sales for August missed expectations, coming in at a 5.31 million annualized pace, and pending home sales declined by 1.4% for the month. The slower pace of sales was mainly due to low inventory and lack of affordability. However, new home sales in August were at a 552,000 annualized pace and beat expectations. The S&P/Case-Shiller 20-city home price index rose 0.6% in July, which was in line with expectations, and year-over-year the index is up 5.0%. Retail sales for August missed expectations and grew at a 0.2% pace for the month when 0.3% had been expected, but July’s retail sales figures were revised higher. Data on consumer attitudes appeared conflicted this month. The University of Michigan Consumer Sentiment Index for September posted its lowest reading in almost a year at 87.2, but the Conference Board’s Consumer Confidence Index beat expectations and improved from the previous month to 103.0. Manufacturing data for the month was generally disappointing with the Institute for Supply Management (ISM) manufacturing index declined to 51.1 in August (any reading above 50 signals expansion). However, the ISM non-manufacturing index, which accounts for 90% of the U.S. economy, was better than expected with a reading of 59.0. The non-manufacturing index has a domestic bias, so it is less effected by global growth and the strong dollar than the manufacturing index. Data from the labor market continued to be generally positive with weekly initial jobless claims coming in at relatively low levels, ranging from 264,000 to 282,000 throughout the month. Non-farm payrolls for August only increased by 173,000 when 217,000 had



been expected, but figures for the prior two months were revised up by a cumulative 44,000. The labor force participation rate remained unchanged from the previous month, and the unemployment rate declined to 5.1%. Average hourly earnings ticked up by 0.3% in August when a 0.2% gain had been expected, and year-over-year average hourly earnings are up 2.2%. Inflation, as measured by the Consumer Price Index (CPI), declined by 0.1%, but Core CPI, which excludes energy and food prices, rose by 0.1%. This was in line with expectations. On an annual basis CPI is up 0.2%, and Core CPI is up 1.8%. Finally, U.S. GDP for the second quarter was revised higher than expected to 3.9%. The increase was led by higher than forecast personal consumption and investment in non-residential structures.

After trending higher in the first half of the month, domestic equity markets declined again at the end of September, closing the third quarter on a negative note. The benchmark S&P 500 declined by 2.64% for the month, extending the index's loss for the year to 6.74%. Small cap stocks, as measured by the Russell 2000 Index, fared even worse this month, losing 5.07% in September, which brought its year-to-date decline to 8.63%. The tech heavy NASDAQ Composite shed 3.27% for the month, bringing the index into negative territory for the year with a 2.45% decline. All three indices are down for the quarter with the S&P 500 losing 6.94%, the NASDAQ declining by 7.35%, and the Russell 2000 shedding 12.22%. Drilling down into sector performance, all but utilities, which rose by 5.40%, posted losses in the third quarter. The worst performing sectors were energy and materials which lost 17.41% and 16.90% respectively for the quarter. Biotechnology stocks, especially pharmaceutical companies, were particularly hard hit in August as U.S. presidential candidates and lawmakers expressed concern regarding price increases for prescription drugs. The NASDAQ Biotech Index declined 11.46% in September, and Valeant Pharmaceuticals, one of the companies that has received the most attention due to these concerns, lost 22.55% for the month. International stocks also declined in September with the benchmark MSCI EAFE Index declining by 5.03% on a local currency basis, which when translated into dollars resulted in a 5.32% loss. In developed markets, the European Central Bank lowered inflation expectations for the Eurozone to 1.1% for 2017, and it expanded the universe of bonds it can purchase for its QE program. The German DAX declined by 5.84% in September, and after being one of the strongest performing indexes during the first half of the year, it is now in negative territory for 2015 with a 1.48% loss.



The DAX was weighed down this month by Volkswagen, one of its component stocks, which lost 37.04% in September after the company admitted to using software to deceive regulators by making its diesel engines appear to emit fewer pollutants than they do in regular use. British stocks also declined this month, with the British FTSE 100 losing 2.98% for the month, which extends the indexes losses for the year to 7.68%. Despite poor stock market performance, British economic data confirmed that GDP grew at 0.7% during the second quarter, making it the second fastest growing developed economy for the quarter behind the U.S., and GDP figures from previous years were revised upwards. Japanese equities, as measured by the Nikkei Index, declined by 6.18%, although the index is still posting a 1.56% gain for the year. Japan's economy contracted by 1.2% in the second quarter and third quarter data such as industrial production statistics have been disappointing, indicating Japan might fall into recession again. Outside of developed markets, the MSCI Emerging Markets Index declined by 3.26%. The index is down 17.18% for the year. Emerging markets have struggled this year due to the anticipated U.S. rate increase and slower growth from China.

Fixed income prices grew modestly during September with the benchmark Barclays Aggregate Bond Index delivering a 0.68% return, which brings its return for the year to 1.13%. Bond prices moved higher in September after the FOMC elected not to raise the Federal Funds rate. The yield on the benchmark 10-year Treasury note declined to end the month at 2.06% after starting September at 2.20%. Long duration fixed income was the best performing sector with the Barclays Long Term US Treasury index gaining 1.54% for the month. Once again, high yield bonds had the worst performance this month as spreads against Treasuries have widened. The Barclays U.S. Corporate High Yield Index declined by 2.60% in September. Commodity prices declined again in September with the benchmark Reuters/Jefferies CRB Index losing 4.12% for the month and 15.74% year-to-date. Commodities declined broadly across fuels and metals, although prices for nickel rose. WTI crude oil prices declined from \$49.20 at the start of the month to end September at \$45.15. Gold prices modestly slumped this month and declined from \$1,135 an ounce to \$1,114 an ounce. Agricultural commodities generally posted gains with sugar prices leading the way. Finally, volatility, as measured by the VIX index declined after a turbulent August to end September at 24.50.



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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.