



## Monthly Market Commentary October 2015

### ECONOMY: US & European Slow Growth Continues

#### EMPLOYMENT GAINS BACK

After two months of disappointing employment reports, job growth rallied in October. Payrolls rose by 271,000, with strong gains in the construction and the services sectors. Despite recent volatility, the trend in payroll growth remains firm with jobs increasing an average of 187,000 over the past three months.

#### CONTINUED GROWTH...AT A MODERATE PACE

The Conference Board's *Leading Economic Index® (LEI)* is a composite of economic data intended to forecast future economic activity. The LEI declined 0.2% in September after being unchanged in August and July. *"Despite September's decline, the U.S. LEI still suggests economic expansion will continue, although at a moderate pace. The recent weakness in stock markets, the manufacturing sector and housing permits was offset by gains in financial indicators, and to a lesser extent improvements in consumer expectations and initial claims for unemployment insurance. The U.S. economy is on track for moderate growth of about 2.5% in the coming quarters, despite the mixed global economic landscape."*

#### SMALL BUSINESSES CAUTIOUSLY OPTIMISTIC

Small business owners remain cautiously optimistic as the National Federation of Independent Business' (NFIB) small business optimism index was flat in October. The index has softened somewhat in 2015, with the net share of firms expecting the economy to improve remaining in negative territory. Fears regarding the global economy and stronger dollar may be weighing on small business optimism.

#### INFLATION MODERATES

U.S. consumer prices gained in October with key elements like health care and housing costs pushing higher in a potential sign of inflation picking up. The CPI rose 0.2%, after falling for two straight months. Analysts have been eyeing inflation to see whether it will show enough strength to justify the Federal Reserve embarking on its first increases in interest rates in more than nine years.

#### EUROPEAN DATA CONTINUES TO IMPROVE

The Eurozone's economic sentiment index marked a new four-year high with solid gains in the construction and retail sectors. Consumer confidence in Italy hit the highest level in 13 years, while Eurozone unemployment maintained its decline, now 10.8%, down 0.1% from August. GDP rose strongly in Spain once again, up 3.2% annualized in the third quarter.

#### BANK OF ENGLAND (BOE) MAINTAINS STATUS QUO

The Monetary Policy Committee (MPC) at the BOE kept its main policy rate on hold and hinted that it will refrain from raising rates for the foreseeable future. Although the domestic economy remains resilient, the MPC is concerned about the downside risks to growth and inflation.

#### CHINA EASES MONETARY POLICY...

The People's Bank of China (PBOC) cut interest rates recently by 0.25% and reserve requirements by 0.5% for the sixth and fourth time, respectively in the last year. The announcement came after growth slowed to 6.9% in the last quarter amidst weak global demand.

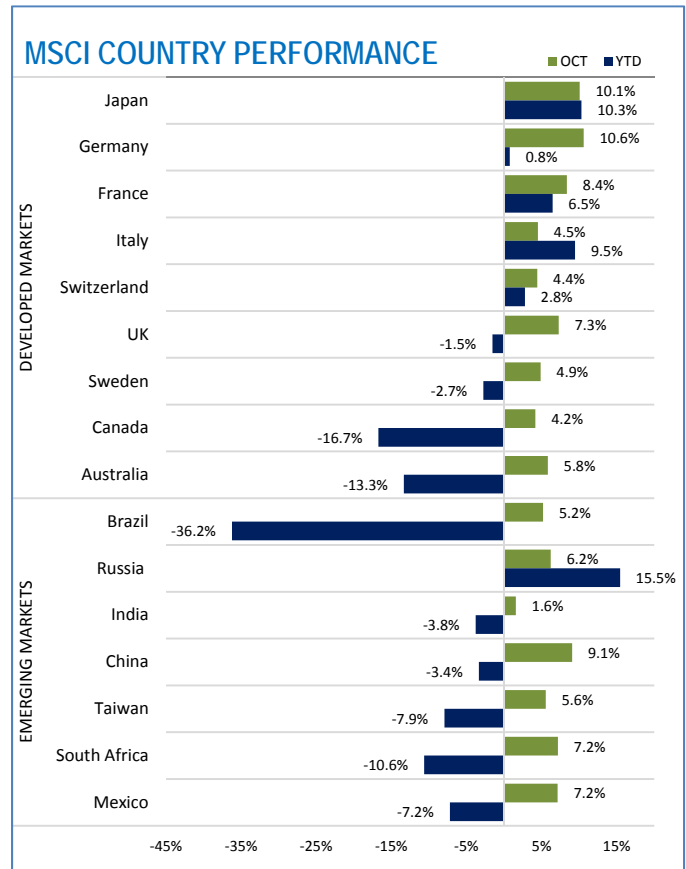
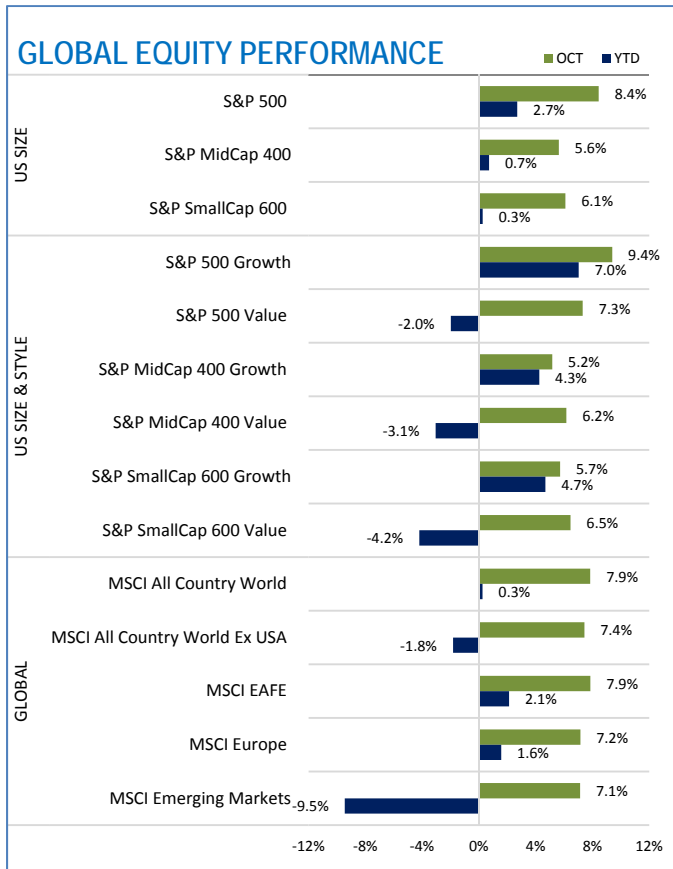
#### ....AND ITS ONE-CHILD POLICY

The Fifth Plenum, the fifth of seven Communist Party Central Committee meetings held every five years, was held in late October. This session mapped out the next five year plan, 2016 to 2020, to be ratified at the National People's Congress in March. The most eye-catching change was relaxing the one-child policy; couples can now legally have two children.

#### JAPANESE RECESSION

The Japanese economy contracted in the third quarter, as the nation fell into its second recession since Prime Minister Shinzo Abe took office in December 2012. GDP declined an annualized 0.8% in the third quarter, following a revised 0.7% drop in the second quarter. Concerns about a Chinese-led slowdown apparently weighed on consumption and capital spending, raising the bar for Abe's government to stimulate demand and steer the economy toward growth.

# GLOBAL EQUITIES: Strong Rally In Global Equities



## STRONG REBOUND FOR U.S. EQUITIES

Stocks bounced back from steep declines in August and September and recorded their best monthly gains in four years in October. Large caps outperformed mid and small cap stocks, and growth continues to outperform value. The S&P 500 returned 8.4% for the month. The markets continue to rally on mixed economic news as it increases the hope that the Fed delays any rate increases.

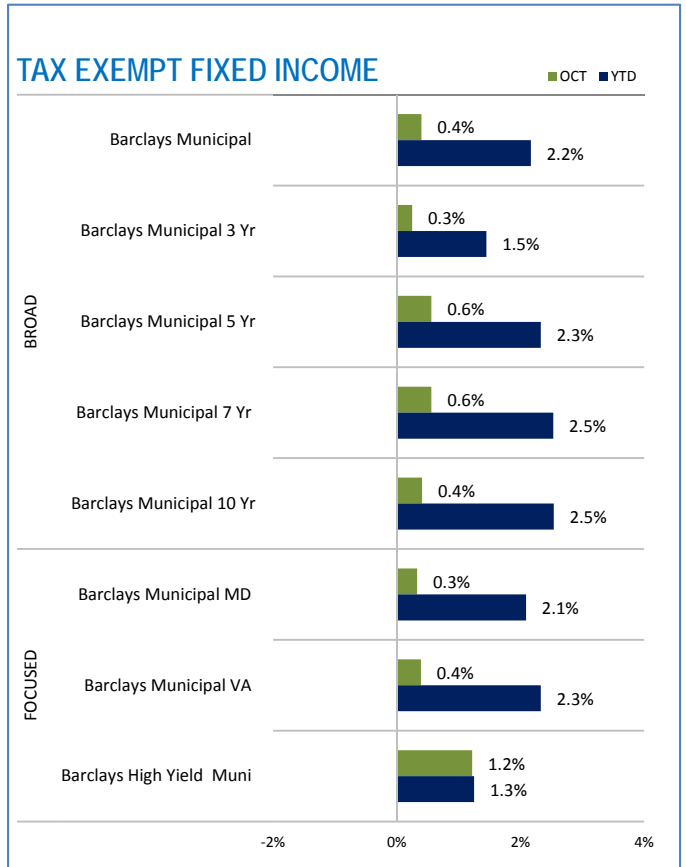
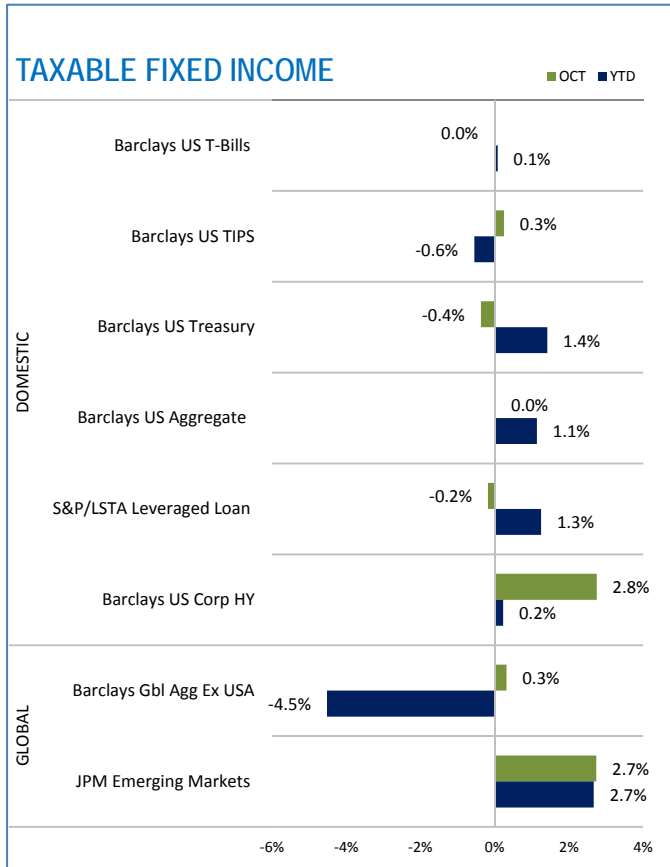
## INCREASES FOR INTERNATIONAL EQUITIES

Global developed market equities also rallied in October. The MSCI EAFE Index of developed international markets stocks increased by 7.9% while the MSCI Europe Index rallied 7.2%. Ongoing monetary easing around the globe increased investors risk appetites for equities. The European Central Bank stated that it was willing to bolster its stimulus program to counter sagging inflation and the lackluster economic recovery. The People's Bank of China, battling its own slowing economy, lowered interest rates for the sixth time in 12 months.

## EMERGING MARKETS JOIN THE RALLY

The MSCI Emerging Markets Index posted its first monthly gain since April, led by countries that had underperformed the most in recent months. Greece, Turkey and Indonesia all rallied over 10%, while China increased 9.1% and Brazil rose 5.2%

# FIXED INCOME: A December Rate Hike?



## FED STATEMENT SPOOKS TREASURIES

Federal Reserve policymakers issued a statement on October 28th following the central bank's two-day policy meeting, increasing the likelihood that the Fed will hike rates at its December meeting. This triggered a sell-off in U.S. Treasuries as the yield on the 10-year Treasury note increased from 2.06% at the beginning of the month to 2.18% after the Fed meeting. The Fed's statement specifically mentioned the possibility of raising rates at its December meeting and appeared to show less concern about international unrest weighing on the U.S. economy.

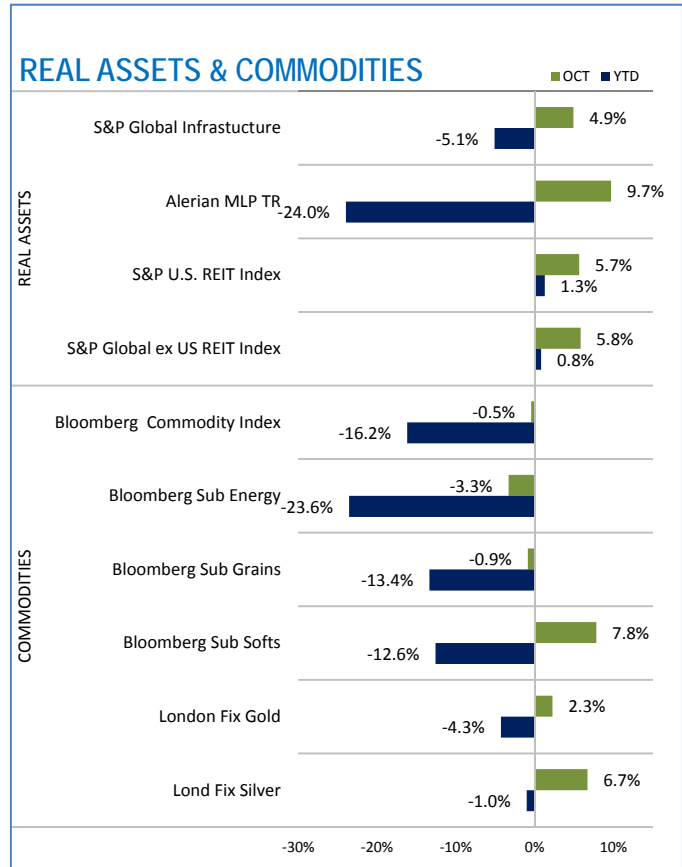
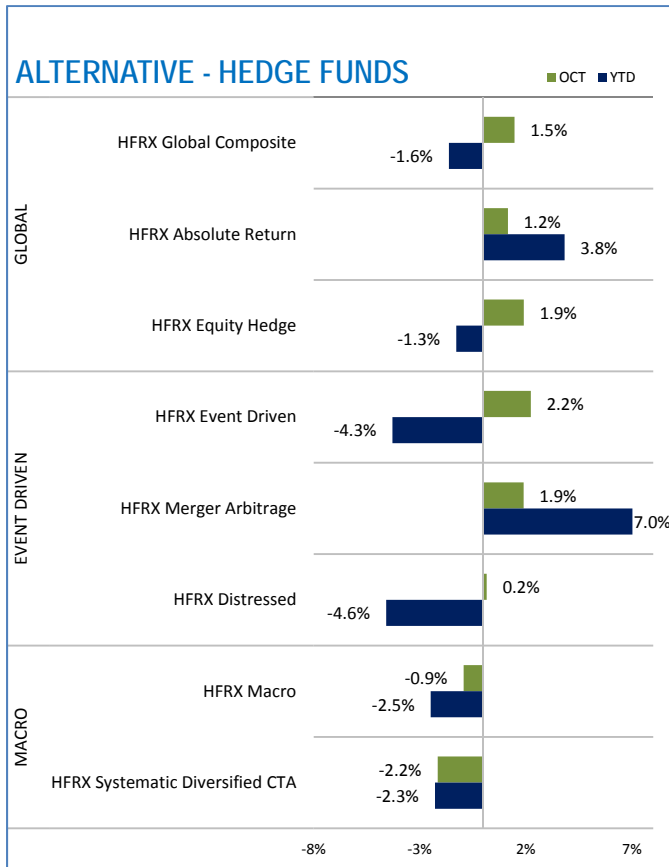
## HIGH YIELD FOLLOWS STOCK RALLY

Some stabilizing economic data in China, along with continuingly supportive central bank rhetoric, helped not only stocks but high yield bonds as well. Massive inflows into the asset class added fuel to the fire, as new issuance slowed, and investors were forced to add exposure from an increasingly illiquid secondary market. However, investors favored higher-quality debt within the asset class as BB rated securities outperformed CCC rated securities by approximately 2.3%.

## MUNI'S PERFORM ON LOW ISSUANCE & CONSTANT DEMAND

Decent demand and lower levels of new supply led to positive returns for municipal bonds. The Treasury Department proposed ways to help financially troubled Puerto Rico restructure its municipal debt, but Congress would need to approve the plan. The City Council of Chicago passed a property tax increase to help shore up the city's troubled finances, leading to a rebound in Chicago's general obligation debt.

## ALTERNATIVES: Commodity Weakness Continues



### HEDGE FUNDS POST POSITIVE RETURNS

Hedge funds posted generally positive performance in October amidst strong gains in the global equity markets. The HFRX Macro Systematic Diversified/CTA Index (managed futures) declined -2.2% as commodities experienced sharp reversals through the month and the U.S. dollar had mixed performance against major currencies.

### COMMODITIES CAN'T RALLY

After an initial rally in early October, the Bloomberg Commodity Index (BCOM) finished the month down 0.5% as crude oil could not sustain a rally over \$50 and industrial metals continued to fall. The BCOM is down 16.2% YTD after touching a 16-year low in August and headed for the fifth straight annual loss, the longest slide on records dating back to 1991.

### REITS AGAIN IN THE BLACK

REITs posted gains in October, supported by positive third quarter earnings reports and the Federal Reserve's decision to keep interest rates unchanged. The S&P U.S. and Global REIT Indices rose 5.7% and 5.8% respectively in October, while the S&P 500 gained 8.4%. Through the end of October, U.S. REITs have returned 1.3% while global REITs have returned 0.8%. Analysts continue to believe that 2015 will be a volatile year for the REIT market, but note positive earnings guidance, increasing occupancies, and little new construction.