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Invested in You

Market Month: October 2015

The Markets (as of market close October 30, 2015)

October proved to be a month filled with highs and lows in the equities markets. But in the end, all of the indexes listed here posted gains over their closing values in September. The Dow gained almost 8.5%--its largest monthly percentage gain in four years. The S&P 500 almost matched the Dow's percentage increase by month's end, gaining almost 160 points to finish the month up 8.30%. Of the indexes listed here, the tech-heavy Nasdaq recorded the largest monthly percentage increase, closing up 9.38%.

At the close of October, the price of gold (COMEX) was $1,141.70, compared to September's closing price of 1,134.90. Crude oil (WTI) prices remained below $50 a barrel, selling at $46.39 a barrel by month's end.

Market/Index	2014 Close	Prior Month	As of 10/30	Month Change	YTD Change
DJIA	17823.07	16284.70	17663.54	8.47%	-0.90%
Nasdaq	4736.05	4620.16	5053.75	9.38%	6.71%
S&P 500	2058.90	1920.03	2079.36	8.30%	0.99%
Russell 2000	1204.70	1100.69	1161.86	5.56%	-3.56%
Global Dow	2501.66	2247.84	2436.23	8.38%	-2.62%
Fed. Funds	0.25%	0.25%	0.25%	0%	0%
10-year Treasuries	2.17%	2.04%	2.14%	10 bps	-3 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

The Month in Review

- Globally, developments in China during the past month have cautiously eased concerns about the world's second-largest economy. In an effort to spur growth, the People's Bank of China cut short-term lending rates. In addition, European Central Bank President Mario Draghi hinted that he might extend a bond-purchase stimulus program in an effort to induce Europe's economic growth rate.
- At September's Federal Open Market Committee (FOMC) meeting, members voted to maintain the 0 to 1/4 percent target range for the federal funds rate. In support of its decision, once again the Committee referenced slow job growth and inflation, which has remained below the FOMC's target rate of 2%. The FOMC noted that interest rates will be increased when there is improvement in the labor market and when inflation moves back to its 2% target rate.
- The first estimate of the third-quarter showed continued expansion of the GDP, but at a much slower pace compared to the second quarter. The first "advance estimate" of gross domestic product showed economic growth increasing at an annual rate of 1.5% compared to the second quarter's growth rate of 3.9%. While source data used as the basis for this initial report may change significantly over time, it provides evidence that the economic growth of the first and second quarters may be fizzling. This report further supports the FOMC's decision to keep interest rates at their current level.
- The FOMC relies on the personal consumption expenditures (PCE) index as a source for determining

Key Dates/Data Releases

11/2: ISM Manufacturing Index

11/4: International trade, ISM Non-Manufacturing Index

11/6: Employment situation

11/12: JOLTS, Treasury budget report

11/13: Producer Price Index, retail sales

11/17: Industrial production, Consumer Price Index

11/18: Housing starts

11/23: Existing home sales

11/24: GDP

11/25: Durable goods orders, new home sales, personal income and outlays

inflationary trends. The PCE index is essentially a measure of the price change of consumer goods and services, or household expenditures. As suggested by the FOMC, inflation is still relatively stagnant as evidenced by the latest report from the Bureau of Economic Analysis, which reveals that PCE increased 0.1% in September to $15.6 billion. In August, PCE increased $44.2 billion, or 0.4%, based on revised estimates. Personal income increased $18.6 billion, or 0.1%, and disposable personal income increased $19.2 billion, or 0.1%, in September. Wages and salaries decreased $3.7 billion in September, in contrast to an increase of $36.0 billion in August.

- A further indication of low inflationary trends, the overall Consumer Price Index fell 0.2% for September from a month earlier, according to the Bureau of Labor Statistics. Over the last 12 months, the index has essentially remained unchanged. Also of significance, the Consumer Price Index for Urban Wage Earners and Clerical Workers decreased 0.6% over the last 12 months, meaning there will be no cost-of-living adjustment for Social Security recipients next year--the first time that's happened since 2011.
- October's U.S. Treasury report for September revealed a budget surplus of $91.1 billion for the month. The budget deficit for the U.S. government's fiscal year, which runs from October through September, came in at $438.9 billion, which represents a 9.2% reduction compared to fiscal 2014. This is the lowest budget deficit since fiscal year 2007.
- Lower gas prices may be giving consumers a few more discretionary dollars to spend, as U.S. retail and food services sales advance estimates for September were $447.7 billion, an increase of 0.1% from the previous month and 2.4% ahead of September 2014, according to the U.S. Census Bureau. Total sales for the July 2015 through September 2015 period were up 2.3% from the same period a year ago. However, excluding motor vehicles, retail and food sales were actually down 0.3% in September.
- U.S. producer prices for goods and services fell 0.5% in September, according to the Bureau of Labor Statistics Producer Price Index. For the 12-month period ended September 2015, overall producer prices are down 1.1%, with prices for goods falling 1.2%, while prices for services declined 0.4%. September's falling prices can be attributed, in large part, to energy prices, which fell 5.9%.
- Orders for manufactured durable goods (expected to last at least three years) continued to contract in September, down 1.2% compared to August, which was revised lower to -3.0%. Once again, a soft export market coupled with the continued strength of the U.S. dollar factor into the decline in durable goods orders.
- The Federal Reserve's monthly index of industrial production fell 0.2% in September from August. Manufacturing output dropped for the second month in a row--falling 0.1%, while mining decreased 2.0%. Conversely, utilities rose 1.3%.
- According to the Labor Department's Job Openings and Labor Turnover Survey (JOLTS), the number of job openings in August fell slightly to 5.4 million compared to 5.7 million in July. The number of hires and separations was little changed at 5.1 million and 4.8 million, respectively. The job openings rate for August was 3.6%, the same rate as in April, May, and June.
- September saw total nonfarm employment increase by only 142,000, while the unemployment rate remained at 5.1%, according to the U.S. Bureau of Labor Statistics. The job increase for September fell well below the monthly average of 198,000 jobs per month in 2015. Evidence of employment contraction includes declines in the labor force participation rate, employment-population ratio, and a drop in average hourly earnings ($25.09--down a cent for August).
- Following the second quarter's soft labor cost increase of only 0.2%, compensation costs for civilian workers increased 0.6%, seasonally adjusted, for the three-month period ended in September 2015, according to a U.S. Bureau of Labor Statistics report. Wages and salaries (which make up about 70% of compensation costs) increased 0.6%, and benefits (which make up the remaining 30% of compensation) increased 0.5%.
- Evidencing continuing weakness in goods exports, the U.S. trade deficit for August came in at $48.3 billion--up $6.5 billion from July's revised total. Compared to July, exports dropped by $3.7 billion, while imports increased by $2.8 billion. Year-to-date, the goods and services deficit increased $17.6 billion, or 5.2%, from the same period in 2014. Decreasing exports is indicative of weakness in foreign demand for U.S. goods and services, augmented by a strong U.S. dollar.
- Import and export prices continue to feel deflationary pressures. Import prices for goods bought in the United States but produced abroad fell 0.1% in September, after a 1.6% decrease in August, according to the latest report from the U.S. Bureau of Labor Statistics. Export prices for goods sold abroad but produced domestically were down 0.7% following a 1.4% drop in August.
- The housing market generally has been a solid performer this year. New residential construction jumped 6.5% in September to 1.2 million--17.5% over the September 2014 rate. Sales of existing residences increased 4.7% in September to a seasonally adjusted annual rate of 5.55 million. Sales of existing homes are 8.8% above a year ago (5.10 million). On the other hand, the median existing home price for

all housing types fell in September to $221,900, a drop of $6,600 from August's median sales price.

- In other developments, for the week ended October 24, there were 260,000 initial claims for unemployment insurance (compared to 276,000 for the week ended September 26), and 2,144,000 continuing claims for unemployment insurance for the week ended October 17 (compared to 2,195,000 for the week ended September 19), which yielded an insured unemployment rate of 1.6%. Compared to last month, the national average retail regular gasoline price dropped from $2.322 per gallon on September 28, 2015, to $2.228 per gallon on October 26--a decrease of $0.094.
- Not surprisingly, consumer confidence waned in October, decreasing to 97.6 compared to 102.6 in September, according to The Conference Board's Consumer Confidence Index®.

Eye on the Month Ahead

Now that we know the Fed will not be raising interest rates in the near term, the focus for November will be on the economy in general, particularly as we head into the holiday season. Equity markets may begin to focus on what's left of the earnings season as well as jobs and the world economy, paying particular attention to developments in China.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

IMPORTANT DISCLOSURES

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