# Economic & Market Review

## ~ October 2014 Investment Newsletter ~

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## Monthly Summary

The fact that most investment markets delivered gains for the month said nothing of the tortuous path to achieve them. At mid-month, slowing economic growth in Japan, Europe, and China had combined with fears of Ebola contagion to push the S&P 500 down nearly 7.5% from its September high. At the same time, the ensuing flight to safety drove the yield on the 10-year Treasury note to an intraday low of only 1.85%.

As the month wore on, however, positives emerged. Investors cheered news that the European Central Bank (ECB) was considering the addition of corporate bonds to its pool of purchasable assets. Also in Europe, published results of long awaited bank stress tests and asset quality reviews revealed few shortfalls and manageable needs for capital infusion. As for the U.S., third quarter earnings gains have thus far exceeded expectations and economic growth of 3.5% in Q3 was nicely ahead of consensus forecasts of 3.0%.

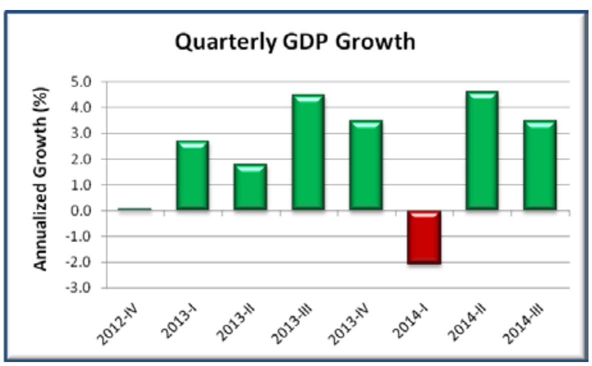
As October drew to a close, the Bank of Japan (BOJ) announced it would triple its pace of stock and property fund purchases, extend the average maturity of its bond holdings by three years, and materially increase the ceiling of annual quantitative easing purchases. The BOJ will now be purchasing bonds at double the government's rate of issuance! The Japanese government's $1.2 trillion pension investment fund, the world's largest, also announced plans to double its stock holdings (Japanese and foreign) to a new target allocation of 50%. In response, these latest efforts to jumpstart Japan's beleaguered economy provided an exclamation point of sorts to what was already a remarkable investment market rebound from October's mid-month lows.

## Economic Data

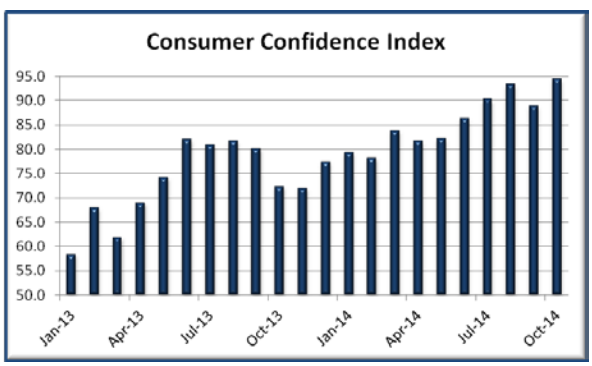
| General | Prior | Current |
|---|---|---|
| GDP growth | 4.6% (Q2) | 3.5% (Q3) |
| Trade balance | -$40.3 B (Jul) | -$40.1 B (Aug) |

| Employment | Prior | Current |
|---|---|---|
| Initial jobless claims | 284,000 (10/18) | 287,000 (10/25) |
| Continuing claims | 2.4 MM (10/11) | 2.4 MM (10/18) |
| Change in nonfarm payrolls | 180,000 (Aug) | 248,000 (Sep) |
| Unemployment rate | 6.1% (Aug) | 5.9% (Sep) |
| Average weekly hours | 34.5 (Aug) | 34.6 (Sep) |

| Consumer | Prior | Current |
|---|---|---|
| Consumer confidence index (Conf. Board) | 89.0 (Sep) | 94.5 (Oct) |
| Retail sales growth (YoY) | 3.3% (Aug) | 5.8% (Sep) |
| Change in consumer credit | $21.6 B (Jul) | $13.5 B (Aug) |




Data Source: U.S. Department of Commerce

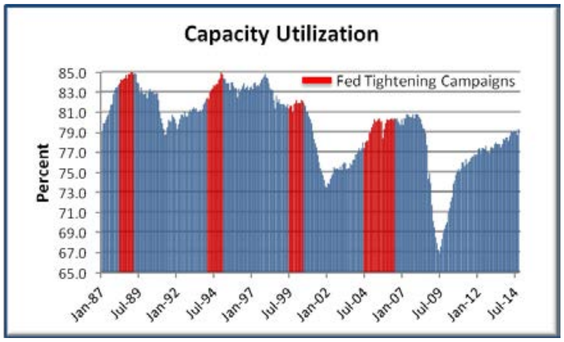



Data Source: The Conference Board

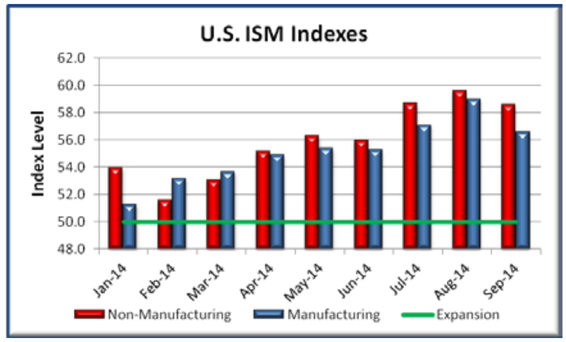
| Manufacturing & Service | Prior | Current |
|---|---|---|
| ISM manufacturing index | 59.0 (Aug) | 56.6 (Sep) |
| ISM non-manufacturing index | 56.0 (Aug) | 58.7 (Sep) |
| Durable goods orders growth | 2.7% (Aug) | 22.6% (Sep) |
| Industrial production growth | 0.4% (Aug) | 0.4% (Sep) |
| Capacity utilization | 79.1% (Aug) | 79.2% (Sep) |

| Real Estate | Prior | Current |
|---|---|---|
| New home sales | 422,000 (Aug) | 412,000 (Sep) |
| Existing home sales | 5.0 MM (Aug) | 5.2 MM (Sep) |
| Case-Shiller home price index (YoY) | 9.4% (Jul) | 8.1% (Aug) |

| Inflation | Prior | Current |
|---|---|---|
| Consumer price index/Core (YoY growth) | 2.1%/1.9% (Aug) | 2.0%/1.9% (Sep) |
| Producer price index/Core (YoY growth) | 1.9%/1.8% (Aug) | 1.7%/1.6% (Sep) |




Data Source: U.S. Federal Reserve




Data Source: Institute for Supply Management

## Market Returns

The S&P 500 gained 2.4% for the month and is up 11.0% for the year. Developed international equity markets, as defined by the MSCI EAFE index, were down 1.5% in October while the MSCI Emerging Markets index rose 1.2%. Year-to-date, international developed and emerging markets have returned -2.8% and 3.6%, respectively.

In the fixed income market, the Barclays U.S. Aggregate index gained 1.0% for the month, and the yield on the 10-year U.S. Treasury note fell 17 basis points to end at 2.35%. For the year, the Barclays U.S. Aggregate is up 5.1%. High yield credit spreads narrowed slightly during the month but still finished nearly 100 basis points wider than the lows set in June. The Barclays High Yield index advanced 1.2% in the process for a 4.7% YTD gain. So far in 2014, junk bonds have underperformed both investment grade corporate bonds as well as municipals. International bonds were down 0.7% for the month taking year-to-date losses to 0.8%. In other markets, the DJ U.S. Real Estate index is up 22.9% in 2014 after rising 8.5% in October and commodities, the laggards among asset classes this year, were down 6.3% through October.