

# Economic & Market Review

~ October 2014 Investment Newsletter ~

Steven W. Lieberman, MBA, CFP® Summit Financial Resources, Inc. (973) 285-3637 [slieberman@sfr1.com](mailto:slieberman@sfr1.com)

## 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%.

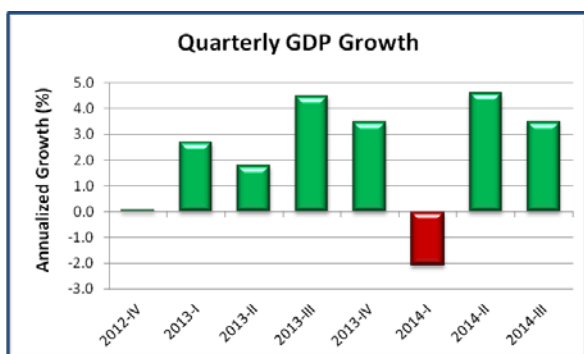
As October drew to a close, the Bank of Japan (BOJ) announced it would triple its pace of stock and property fund purchases, extend the average maturity of its bond holdings by three years, and materially increase the ceiling of annual quantitative easing purchases. The BOJ will now be purchasing bonds 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

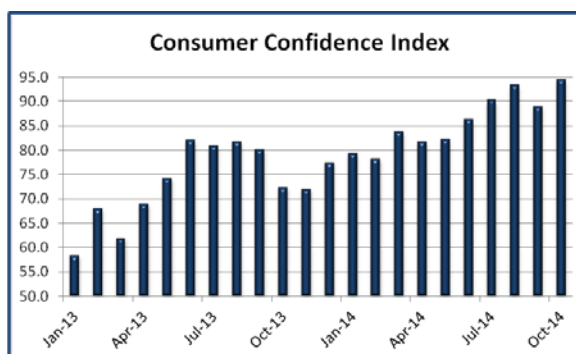
<b>General</b>	<b>Prior</b>	<b>Current</b>
GDP growth	4.6% (Q2)	3.5% (Q3)
Trade balance	-\$40.3 B (Jul)	-\$40.1 B (Aug)

<b>Employment</b>	<b>Prior</b>	<b>Current</b>
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)

<b>Consumer</b>	<b>Prior</b>	<b>Current</b>
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



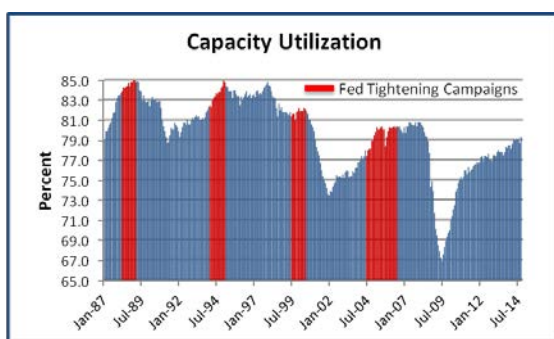
Data Source: The Conference Board



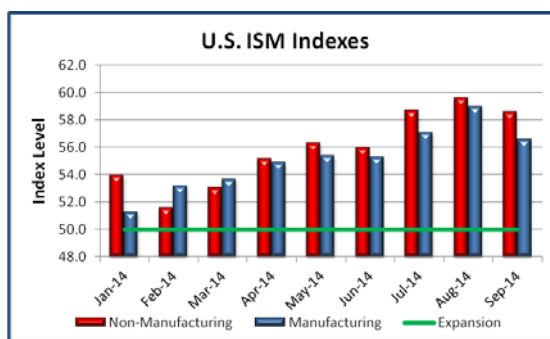
<b>Manufacturing &amp; Service</b>	<b>Prior</b>	<b>Current</b>
ISM manufacturing index	59.0 (Aug)	56.6 (Sep)
ISM non-manufacturing index	56.0 (Aug)	58.7 (Sep)
Durable goods orders growth	2.7% (Aug)	22.6% (Sep)
Industrial production growth	0.4% (Aug)	0.4% (Sep)
Capacity utilization	79.1% (Aug)	79.2% (Sep)

<b>Real Estate</b>	<b>Prior</b>	<b>Current</b>
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)

<b>Inflation</b>	<b>Prior</b>	<b>Current</b>
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.

## Disclaimers

This commentary was written by Robert W. Lamberti, CFA, Vice President of Investments and a Principal of Summit Financial Resources, Inc. and Summit Equities, Inc., 4 Campus Drive, Parsippany, NJ 07054. Tel. 973-285-3600, Fax: 973-285-3666. Source of performance: Morningstar®. Indices are unmanaged and cannot be invested into directly. The investment and market data contained in this newsletter is not an offer to sell or purchase any security or commodity. Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The MSCI EAFE and Emerging Markets Indexes were created by Morgan Stanley Capital International (MSCI) and designed to measure equity market performance in global developed and emerging markets, respectively. The Barclays Aggregate Bond Index is a market capitalization-weighted index comprised of government securities, mortgage-backed securities, asset-backed securities, corporate securities, and a small number of foreign bonds traded in the U.S. It is used to represent the universe of bonds in the domestic market. REITs, Real Estate Investment Trusts, are securities that invest in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, however, may have liquidity constraints. Past performance does not guarantee future results. Information throughout this Newsletter, whether stock quotes, charts, articles, or any other statement or statements regarding markets or other financial information, are obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Neither we nor our information providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or for any delay or interruption in the transmission thereof to the reader. To unsubscribe from this investment newsletter please reply to this email with "unsubscribe" in the subject. Opinions expressed are subject to change without notice and are not intended as investment advice or a guarantee of future performance. Consult your financial professional before making any investment decision.

