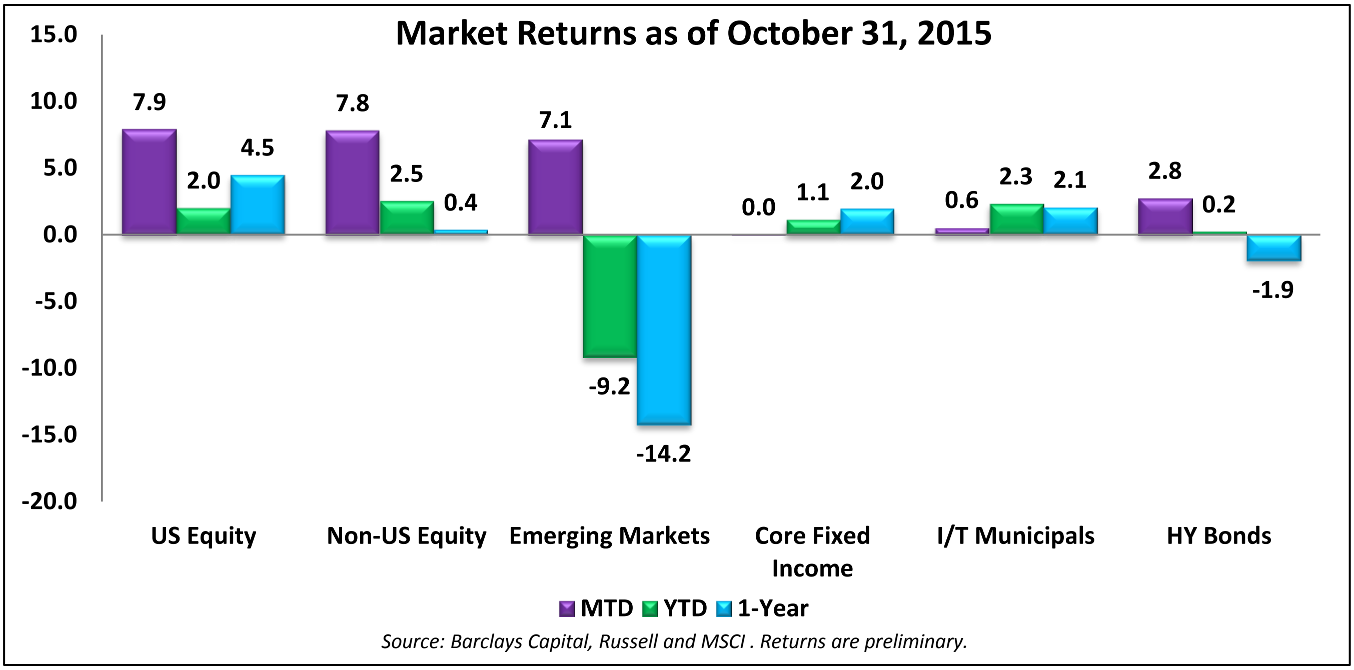
CAPITAL MARKETS RECAP

OCTOBER 2015



After declining in August and September, stock markets staged a strong rebound in the month of October. Sentiment improved during the month as investors began searching for bargains. Market participants remained focused on Fed's timing of the first interest rate hike. In an effort to support growth in the world's second largest economy, China's central bank lowered its reserve requirement and cut interest rates again in October, its 6th rate cut since November 2014.

Economic Data

- **Real GDP** for the 3rd quarter grew 1.5%, a marked deceleration in growth from the 3.9% rate experienced in the 2nd quarter. The primary contributor to slower growth was a build up in inventories, however, consumer spending remained firm (grew 2.2%).
- **Inflation** declined 0.2% in September after also falling in August. The overall index was pushed down by energy which dropped 4.7% in September. Core CPI (CPI less food and energy) remained stable, increasing 1.9% over the past 12 months.
- **U.S. unemployment rate** held steady at 5.1% in September. The economy added 142,000 jobs in September, but this clip was lower than the average monthly job gains so far in 2015 and in 2014, which experienced average monthly increases of 198,000 and 260,000, respectively.
- **Consumer confidence** declined in October, after an increase in September. According to the Conference Board, consumers were less optimistic about the job market outlook.
- **Global manufacturing growth** improved in October and was driven by developed economies. Rebounds in manufacturing growth were experienced in the U.S., U.K., and Japan. The emerging markets remained in contraction territory, led by weakness in emerging Asia (China, South Korea, and Taiwan).

U.S. Equities

- The broad U.S. stock market rallied in October, pushing year-to-date returns back into positive territory.
- Size – Large caps appreciated more than both small and mid cap stocks on a relative basis.
- Growth stocks continued to outperform value stocks for the month and on a year-to-date basis. One month returns for growth indexes were aided by strong performance in the information technology sector.
- All S&P 500 sectors posted positive returns in October and the top 3 sectors posted double digit returns:

Best		Worst	
Materials	13.52%	Utilities	1.09%
Energy	11.44%	Consumer Staples	5.82%
Information Technology	10.76%	Financials	6.24%

International Equities

- International developed equities performed in line with U.S. equities in October. International equities continue to be supported by highly accommodative monetary policies in Europe and Japan.
- Emerging market equities rallied in October, but did not make up for ground lost earlier in the year. Returns in emerging markets equities continue to significantly underperform developed equities on a year-to-date and one-year basis.

Fixed Income

- During the month, 10-Year U.S. Treasury yield remained relatively range bound, ending the month slightly higher at 2.15%.
- High yield bonds rallied along with the stock market, as investors' risk appetite reemerged.

Looking Ahead

- Global growth continues to be tepid, with the U.S. being its main contributor.
- The Quantitative Easing (QE) program in the U.S. will likely come to an end later this year or early next year, while European Central Bank and Bank of Japan are expected to remain highly accommodative for some time.
- Investors should keep in mind that interest rate increases in the U.S. are due to an improving economy. Further, the Fed has indicated that they expect interest rate increases to be slow and deliberate.
- Tailwinds to U.S. growth include solid consumer confidence, continued improvement in housing and labor markets, and low oil prices as we head into the holiday shopping season. On the flip side, risks to U.S. growth include a continued U.S. dollar strengthening and the related impact on global nationals, and a faster than expected slow down in China.
- Despite these risks, it is difficult, if not impossible, to time the market. Therefore, having a balanced approach to investing may help mitigate market volatility.

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