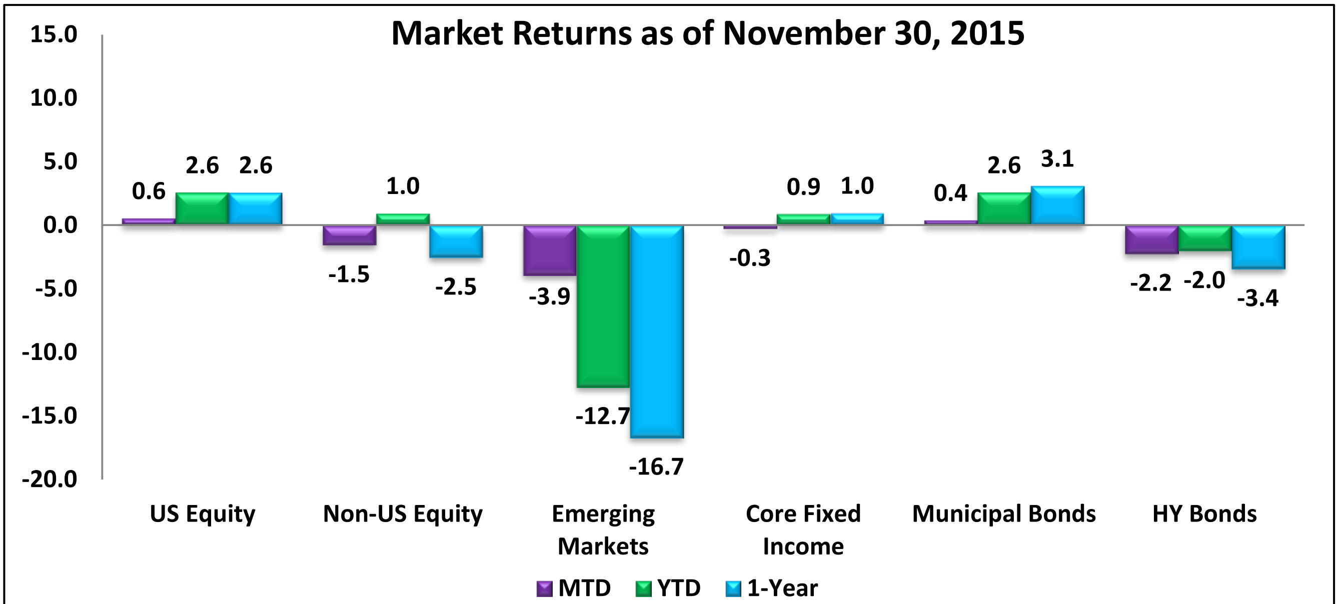
CAPITAL MARKETS RECAP

NOVEMBER 2015



Source: Barclays Capital, Russell and MSCI . Returns are preliminary.

After staging a strong rally in October, global equity returns were mixed in November. U.S. equities outperformed international developed and emerging market equities, as the U.S. dollar continued to strengthen due to the prospects of higher interest rates in the U.S. On the last day of the month, the IMF (International Monetary Fund) announced that it will begin including the Chinese renminbi into its SDR (Special Drawing Rights) basket of currencies along with the U.S. dollar, euro, Japanese yen, and pound sterling effective October 2016.

Economic Data

- **Real GDP** for the 3rd quarter grew at an annual rate of 2.1%. Growth was higher than the prior estimate of 1.5%, but slower than the 3.9% growth rate experienced in the 2nd quarter. Softer growth in the 3rd quarter relative to the 2nd quarter was primarily due to a decline in inventory investment and exports.

- **Inflation** increased by 0.2% in October after falling in August and September. The energy index, which had declined 4.7% in September, rose by 0.3%. Core CPI (CPI less food and energy) remained stable, increasing 0.2% in October and averaging 1.9% over the past 12 months.

- **U.S. unemployment rate** edged down slightly in October to 5.0% from 5.1% reported in September. The economy added 271,000 jobs in October, an improvement over August and September which experienced monthly increases of 153,000 and 137,000, respectively.

- **Consumer confidence** declined again in October. According to the Conference Board, consumers continued to be less optimistic about the job market outlook.

- **Global manufacturing growth** remained subdued in November. Improving growth in Europe and Japan were off-set by weakness in China and other Asian countries including Taiwan and South Korea. Growth in the U.S. slowed in November, but remained in expansion territory.

U.S. Equities

- The broad U.S. stock market edged up slightly in November.
- Size – Small caps returned 3.3% for the month of November, widely outperforming both large and mid caps which returned 0.3%.
- Growth and value stocks performed similarly for the month, but growth stocks continued to outperform value stocks on a year-to-date basis. The Russell 3000 Growth index was up 6.9% year-to-date through November, while the Russell 3000 Value index was down 1.8% for the same time frame.
- S&P 500 sector returns were somewhat benign for the month of November:

Best		Worst	
Financials	1.89%	Utilities	-2.14%
Industrials	0.93%	Telecom Services	-1.26%
Information Technology	0.87%	Consumer Staples	-1.11%

International Equities

- In November, international developed equities rose in local terms (up 1.3%), but declined in U.S. dollar terms (down 1.5%) as the greenback continued to strengthen against most major currencies.
- Emerging market equities took a reversal from October's rally and ended down for the month in both local and U.S. dollar terms. Investor pessimism continues to plague emerging markets equity returns.

Fixed Income

- In anticipation of the Fed tightening later this year, U.S. rates rose in November pushing bond returns down for the month. Shorter-term bonds held up better than longer-term bonds on a relative basis.
- High yield bond returns declined as investors' risk appetite waned.

Looking Ahead

- Despite softer economic data, the Conference Board Leading Economic Index still points to continued moderate economic expansion in the U.S.
- As we approach the end of 2015, it appears that it may be a lackluster year for U.S. equity returns. This may be disappointing given the strong returns in equities since the great financial recession. It is worth noting that over the past 5 years, the S&P 500 has returned over 14% annualized rate. Return patterns in equities are historically uneven, so having a flat to down year is to be expected.
- On a year-to-date basis, having a balanced portfolio including international developed and emerging market equity exposure has negatively impacted returns relative to a 100% U.S. equity performance. However, over historically longer periods, having a diversified approach has shown higher risk adjusted returns. We believe this approach remains valid over longer periods.
- Moreover, stock market returns are a leading indicator. Thus, equity returns will likely improve well before actual economic conditions improve. Therefore, investors should focus on buying future growth, rather than past growth. Despite the volatility in this asset class, emerging market countries on average are growing faster than developed countries.

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