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FINANCIAL MARKET UPDATE 10/2/15

THE WEEK IN REVIEW

Economic data was disappointing this week as manufacturing and employment data both flashed warning signals. This was not a good week for economic growth bulls. The 10-year Treasury yield dropped from 1.9% to its lowest level since February 2015. The good news is that one or two data points do not make a trend.

Two highly watched manufacturing reports were released this week, the Institute for Supply Management (ISM) Chicago Business Barometer, and the Manufacturing ISM Report on Business. Both reports came in below expectations, with the ISM Chicago report seeing the most significant slowdown. Each release indicated that although activity is growing, it is happening at a slower rate. This has caused some worry among market participants that a slowdown in global growth coupled with disinflationary pressures may negatively impact the health of the U.S. economy and its markets, especially equity and credit-oriented fixed income. However, the most recent reading of 50.2% for the Manufacturing ISM Report corresponds to roughly a 2.2% increase in real GDP annually. This suggests that although the recent misstep in manufacturing may be concerning, overall GDP growth remains intact. Further, the report indicates that the average level from January to September (52.2%) corresponds to approximately 2.9% real GDP growth on an annualized basis. This is important because the Fed expects real GDP to fall within a range of 1.9-2.5% for 2015.

Employment readings were also less upbeat this month. Job cuts have now risen to their highest level since 2012; rising job cuts are typically indicative of weaker levels of employment. Private employment, as tracked by the ADP National Employment report, has remained healthy. “The U.S. job machine continues to produce jobs at a strong and consistent pace. Despite job losses in the energy and manufacturing industries, the economy is creating close to 200,000 jobs per month. At this pace full employment is fast approaching,” said Mark Zandi, chief economist for Moody’s Analytics. Friday’s BLS nonfarm employment report confirmed this on Friday. While job growth of only 142,000 was weaker than expected this month, with July and August also revised lower, the unemployment rate remained unchanged at 5.1%, still within the Fed’s target range of 4.9-5.2%.

Market volatility continued this week. Domestic equities had a mixed week as the S&P shuffled between gains and losses before finishing up for the week but still down for the year. Biotech stocks were hit particularly hard as the NYSE Arca Biotech Index finished down 4.5% on the week despite a small rally Friday.Fixed income helped offset equity volatility as the Barclays Aggregate Bond Index finished the week up 0.42% from last week and still up for the year.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	16,472.37	0.97%	-7.58%	-3.72%
NASDAQ	4,707.78	0.45%	-0.60%	4.92%
S&P 500 LargeCap	1,951.36	1.04%	-5.22%	-1.76%
S&P 400 MidCap	1,384.04	-0.16%	-4.66%	0.87%
S&P 600 SmallCap	654.64	-1.24%	-5.82%	3.65%
MSCI EAFE	1,654.98	-0.35%	-6.76%	-8.03%
MSCI Emerging Markets	797.61	1.07%	-16.60%	-19.64%
Barclays Aggregate US		0.42%	1.19%	2.62%
Bloomberg Non-US Govt Bond		0.56%	-2.21%	0.42%
Bloomberg US Treasury Index		0.69%	1.92%	3.64%
Bloomberg High Yield Index		-1.30%	-2.04%	-4.00%
FTSE/NAREIT All REIT Index		0.74%	-6.28%	4.32%
Bloomberg Commodity Index		-0.68%	-15.76%	-25.65%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.00%	0.03%	0.01%
2-Year Treasury	0.58%	0.72%	0.53%
5-Year Treasury	1.29%	1.52%	1.70%
10-Year Treasury	1.99%	2.20%	2.44%
30-Year Treasury	2.82%	2.97%	3.15%
Municipal Bond Yields (10 Yr)	2.08%	2.25%	2.20%

Price return as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.

UPCOMING WEEK

Next week will be quieter on the data front. Highly anticipated reports on ISM services, consumer credit, and the FOMC minutes will be watched closely. The consumer credit report will shed some light as to what credit demand looks like for bigger ticket items such as autos and homes, along with credit card balances.

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