



Quarterly Market Review: July-September 2013

The Markets

Equities confronted several threatening headwinds during Q3: Syria, potential Federal Reserve tapering, a looming government fiscal showdown, fear of contagion from the nation's largest municipal bankruptcy, and three hours of Nasdaq going dark because of technical glitches. However, stocks managed to climb the proverbial wall of worry, especially after the Fed postponed any tightening and the military threat abated, though a looming fiscal showdown began to threaten those gains at quarter's end. After an up-and-down summer, the Dow, S&P 500, and the small-cap Russell 2000 once again powered upward to fresh all-time record levels in mid-September, while the Nasdaq had the quarter's strongest performance. Finally, as the eurozone emerged from the longest recession in its history and China showed signs of manufacturing growth, the Global Dow's quarterly gains actually came close to rivaling those of the domestic market leaders and even nudged it ahead of the Dow year-to-date.

Bond markets suffered from Fed concerns. As the highly anticipated September meeting approached, the yield on the benchmark 10-year Treasury note neared 3%, a level not seen in more than two years. However, by quarter's end it had given back roughly a third of a percent; since prices tend to rise when yields fall, that allowed bond prices to recover a bit.

Fed anticipation also pushed the dollar to three-year highs against a basket of six foreign currencies. However, that rally reversed course after the Fed's announcement, costing the dollar roughly 4% for the quarter. Gold benefitted from dollar weakness, gaining roughly 6% to end near \$1,330 an ounce, though it remains down roughly 20% for the year. Concern about the Middle East helped push oil prices above \$100 a barrel for the first time since May 2012.

Market/Index	2012 Close	As of 9/30	Monthly Change	Quarterly Change	YTD Change
DJIA	13104.14	15129.67	2.16%	1.47%	15.46%
NASDAQ	3019.51	3771.48	5.06%	10.82%	24.90%
S&P 500	1426.19	1681.55	2.97%	4.69%	17.91%
Russell 2000	849.35	1073.79	6.22%	9.86%	26.42%
Global Dow	1995.96	2310.26	5.85%	9.46%	15.75%
Fed. Funds	.25%	.25%	0 bps	0 bps	0 bps
10-year Treasuries	1.78%	2.64%	-14 bps	12 bps	86 bps

Equities data reflect price changes, not total return.

Quarterly Economic Perspective

- Contrary to speculation that the Federal Reserve would begin tapering its economic support in September, the Fed's monetary policy committee postponed any reduction in its \$85 billion monthly bond purchases. The committee said it wants more evidence that the economy is strong enough to survive potential threats from higher mortgage rates and fiscal wrangling in Washington.
- U.S. economic growth accelerated in the second quarter; the 2.5% annualized growth rate was more than double Q1's 1.1%. The Bureau of Economic Analysis said the primary contributors to the increase were higher consumer spending, improved exports, larger business investments in buildings and inventories, and more residential construction. After falling 0.1% in Q1, after-tax corporate profits rose almost 3.5% during Q2 and were up 6.4% from Q2 2012.
- The unemployment rate fell to 7.3%, its lowest level since December 2008. However, the news was not entirely good; the Bureau of Labor Statistics said that though the economy added an average of more than 148,000 jobs between June and August, that was lower



than the roughly 182,000 new jobs created in Q2 or the 207,000 monthly average of Q1. Also, part of the decline in the unemployment rate was the result of roughly 1.4 million people leaving the labor force.*

- The housing market showed signs of being affected by higher mortgage rates as mortgage lender Freddie Mac said the rate for a 30-year fixed-rate loan hit a two-year high of 4.58% in August. Though that was still relatively low from a historical perspective, sales of both new and existing homes had begun to cool by the end of the quarter. However, both were still much stronger than a year earlier; the National Association of Realtors® said home resales hit their highest level in more than six years, and new home sales were up 12.4% over the last 12 months. Housing starts also saw gains, ending the quarter 19% ahead of the same time last year, though building permits showed signs of weakness.
- U.S. industrial production was up 2.7% from a year earlier, according to the Federal Reserve, and the Institute for Supply Management said its gauges of both manufacturing and services industries hit multiyear highs. However, after rising in July to their highest level since 1992, durable goods orders showed signs of slowing as businesses cut spending on capital equipment after five straight months of increases.
- Inflation remained well within the range the Federal Reserve considers acceptable. According to the Bureau of Labor Statistics, after picking up slightly during the summer, consumer inflation moderated to end the quarter at a 1.5% annual rate, while the annual wholesale inflation rate for the last 12 months was slightly lower at 1.4%. Strong car sales were a major contributor to an increase in retail sales, which saw their fifth straight monthly increase in August, and by the end of the quarter, both personal incomes and inflation-adjusted consumer spending had risen every month since January.
- Detroit became the largest U.S. municipality ever to file for bankruptcy, while Verizon's sale of \$49 billion of bonds set a record for the largest single sale of corporate debt in U.S. history.
- After an 18-month recession--the longest in its almost 15-year history--the eurozone's economy finally saw some improvement, growing 0.3% in Q2. The European Central Bank now sees the eurozone contracting slightly less in 2013 (-0.4%) than previously forecast. Also, German Chancellor Angela Merkel's reelection effectively reinforced continued support for weaker eurozone members. Meanwhile, data on China's economy was mixed; government figures showed a rebound in manufacturing while the equivalent of the Fed's "beige book" report suggested that the economy might be starting to slow.

Eye on the Month Ahead

Key dates and data releases: U.S. manufacturing, construction spending (10/1); factory orders, U.S. services sector (10/3); unemployment/payrolls (10/4); balance of trade (10/8); Federal Open Market Committee minutes (10/9); wholesale inflation, retail sales (10/11); Empire State manufacturing survey (10/15); consumer inflation, Fed "beige book" report, international capital flows (10/16); housing starts, industrial production, Philly Fed manufacturing survey (10/17); leading economic indicators (10/18); home resales (10/21); new home sales (10/24); durable goods orders (10/25); home prices (10/29); Federal Open Market Committee monetary policy announcement, initial estimate of Q3 gross domestic product (10/30).

Data sources: All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. Market data: U.S. Treasury (Treasury yields); WSJ Market Data Center (equities); Federal Reserve Board (Fed Funds target rate); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold, NY close); Oanda/FX Street (currency exchange rates). Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. Equities data reflects price changes, not total return.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indexes listed are unmanaged and are not available for direct investment. The U.S. Dollar Index is a weighted geometric mean of the dollar compared to the euro, Japanese yen, British pound, Canadian dollar, Swedish krona, and Swiss franc.

*Employment data based on 9/6 report.

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