We’re pleased to provide you with the latest issue of Market Perspective, a monthly commentary designed to help keep you informed about the economy and the financial markets. In this issue, we review the performance of global equity and fixed income markets, discuss what worked in September and highlight positive changes in the U.S. job market.

Economic & Market Overview

• Weakness in September dampened U.S. equity gains in Q3: Equities experienced broad declines in September, with major stock indices finishing lower for the month. U.S. equities (S&P 500 Index at -1.40%) fell during the month despite generally positive domestic economic news, but earlier gains in July and August pushed the U.S. market to its 7th consecutive quarterly gain. Foreign developed markets (MSCI EAFE Index at -3.84%) also posted a loss for the month, continuing its weak performance for 3 months in a row. Foreign emerging markets (MSCI EM Index at -7.41%) suffered a significant setback in September on signs of slowing growth in China. Refer to Table 1 and Chart 1 for trailing returns across equity markets.

• U.S. job picture brightens: U.S. unemployment hit a six-year low in September with the unemployment rate falling from 6.1% in August to 5.9% in September. Wage growth continues to be muted providing a brake on inflationary pressure. Specifically, the Consumer Price Index declined 0.2% in August, following a 0.1% increase in July. U.S. oil prices continue to follow August's downward trend approaching $90 a barrel.

• Other data mixed: While second quarter GDP was revised up to a strong 4.6% growth rate, other data was not so encouraging. The pace of growth in the U.S. services sector fell in September to its lowest level in three months. The Institute for Supply Management (ISM) said its services index fell to 58.6 last month from 59.6 in August, which was its highest level since its inception in January 2008. The ISM Manufacturing Report also came in lower than August. In addition, consumer confidence, as measured by The Conference Board, declined in September. On the housing front, new home sales were very strong in August providing a sign of life. However this was tempered by a report showing that sales of previously owned homes—representing the bulk of the housing market—declined in August, after four months of gains. Additionally, the S&P/Case-Shiller Index, which measures U.S. home price appreciation, slowed in August.

• U.S. monetary policy: The Federal Reserve remains on track to end its quantitative easing program in October. However, the timeline for a possible increase of interest rates is less clear. While consensus appears to favor mid-2015, the strong jobs report provided fuel for speculation that the Fed would move earlier than expected. This helped move the U.S. dollar higher, hitting a two-year high against the euro and a six-year high against the yen. Federal Reserve minutes show that concern over the strong dollar’s impact on the U.S. economy and weak...
overseas growth are factors creating caution on any interest rate increases.

• European weakness continues: The shocking 4% decline in German industrial production in August, followed by a drop in German exports raised serious concerns about Germany’s growth prospects. Economic weakness continues to be present in France. In the United Kingdom, which has been in economic recovery, concerns have been voiced about the impact of Eurozone weakness on the U.K.’s economy. Against this backdrop, and despite Eurozone inflation declining to a five-month low, the European Central Bank has taken no new action. Instead, it’s waiting to see if previous measures—including lowering the interest rate on bank deposits at the ECB to negative territory and new lending and asset purchase programs—would take hold.

• What worked in September? With the market weakness, equity investors tended to favor larger blue-chip companies, which substantially outperformed small-cap companies. Value has trailed growth across both large cap and small cap stocks, a trend that has persisted throughout the quarter. Within key sectors of the S&P 500 Index, the more economically sensitive energy (-7.6%) and consumer discretionary (-2.8%) sectors trailed all other sectors, while more defensive sectors such as consumer staples (0.6%) and health care (0.4%) showed gains for the month. Refer to Chart 2 for trailing returns across equity markets.

• Fixed income markets were also weak: U.S. Bonds (Barclays U.S. Aggregate Bond Index) fell -0.68% in September, but managed to post a small gain of 0.17% for the quarter. Rising yields during the month, with the 10-year U.S. Treasury bond yield climbing from 2.35% to 2.52%, and moderately wider spreads weighed on results. An uptick in macroeconomic and geopolitical concerns during the month disfavored risk assets such as corporate (Barclays U.S. Credit at -1.41%) and high yield (Barclays U.S. High Yield at -2.09%) bonds. Refer to Chart 2 for trailing returns across equity markets.