Current Investment Environment

September 2015

Course Correction

Rising uncertainty over slowing growth in China, continued weakness in oil prices, and anticipation of a Fed rate hike resulted in a global stock market selloff in mid-August. Following a 3.9% annualized gain in second quarter GDP, growth in the U.S. economy likely moderated in the third quarter as soft global demand and the stronger dollar contributed to a decline in exports.

The Institute for Supply Management's manufacturing index registered 50.2% in September, barely a whisper above the breakeven point between expansion and contraction. Job growth decelerated in the quarter, and the Department of Labor showed September payrolls rose by a weak 142,000 – far below consensus expectations – and wage growth was flat. The headline unemployment rate edged down to 5.1% in August and remained there to close the quarter. Despite the recent softness, labor market data appears very close to the Fed's full employment mandate, but inflation measures are well short of the Fed's 2% target. Citing economic uncertainty and volatility in the markets, the Fed left the target federal funds rate unchanged through the quarter.

Equity markets entered correction territory in the third quarter, falling more than ten percent from the recent peak levels registered in May. The S&P 500 Index returned -6.44 for the three months ending September 30, 2015. Energy (-17.41%) and materials (-16.89%) were the worst-performing sectors for the quarter, reflecting the impact of falling commodity prices. The utilities sector was the best performing economic sector in the S&P 500, and was also the only group that produced positive returns for the quarter (+5.4%) followed by nearly flat performance in the consumer staples space (-0.20%). Despite the drop, the S&P 500 outperformed other major equity markets like the domestic small cap Russell 2000 Index (-11.92%) and the S&P Mid Cap 400 Index (-8.50%). Foreign stock markets provided no safe haven from the decline either, as the MSCI EAFE Index (-10.16%) and the MSCI Emerging Markets Index (-17.79%) also plunged.

The Treasury yield curve flattened in the third quarter, with two-year yields slipping little more than a basis point while the ten-year maturity dropped from a 2.35% in June to a 2.04% yield to close September. The Barclays Capital Intermediate Aggregate Bond Index returned 1.08% for the quarter. Longer maturities benefitted from the flattening yield curve. Treasuries outperformed agency debt within the government sector, while asset-backed securities trailed mortgages in the securitized sector.

Despite somewhat softer economic conditions, we believe the recent selloff represents a stock market correction and is not the harbinger for a prolonged bear market. We recognize that periods of volatility can be unnerving, but short-term market declines should not affect the investment strategy put in place to help you reach your long-term goals. Staying the course with a well-diversified portfolio comprised of a strategic mix of asset classes has historically yielded better results over time than jumping in and out of the markets or chasing returns. Remember the old adage that success is time in the market, rather than timing the market. Our team of investment professionals is monitoring the changing economic landscape looking for areas of opportunity, and we stand ready to make tactical adjustments as appropriate.

As of market close Wednesday, September 30, 2015

Dow Jones Industrial Average	16,284.70
S&P 500 Index	1,920.03
NASDAQ Composite Index	4,620.16
90-Day Treasury Bill	-0.015%
5-Year Treasury Note	1.358%
10-Year Treasury Bond	2.038%
Federal Funds Rate	0.00% to 0.25%

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