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Market Month: October 2014

The Markets

October lived up to its reputation for volatility as triple-digit intraday swings in the Dow became almost commonplace. Despite being spooked for much of the month--at one point the S&P 500 was down almost 8% from its most recent high--both the S&P and the Dow industrials rallied strongly to end the month at fresh all-time records. Generally encouraging corporate earnings from U.S. companies, a strong Q3 GDP, and increased central bank support overseas helped equities markets overcome fears about the end of the Federal Reserve's quantitative easing and global concerns about slowing growth and the threat of Ebola.

Increased U.S. energy resources and reduced global demand meant that oil prices continued to drop, ending the month at roughly \$80 a barrel. The dollar maintained its September gains against a basket of six foreign currencies; since oil is traded in dollars, a stronger dollar also helped keep oil prices in check. Meanwhile, after a bounce at mid-month, the price of gold plummeted to roughly \$1,170 an ounce. Not surprisingly, the volatility in equities caused the yield on the benchmark 10-year Treasury to fall briefly to its lowest level since June 2013 as investors sought the relative safety of Treasury securities.

Market/Index	2013 Close	Prior Month	As of 10/31	Month Change	YTD Change
DJIA	16576.66	17042.90	17390.52	2.04%	4.91%
Nasdaq	4176.59	4493.39	4630.74	3.06%	10.87%
S&P 500	1848.36	1972.29	2018.05	2.32%	9.18%
Russell 2000	1163.64	1101.68	1173.51	6.52%	.85%
Global Dow	2484.10	2534.47	2527.85	-.26%	1.76%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	3.04%	2.52%	2.35%	-17 bps	-69 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

The Month in Review

- The U.S. economy grew at an annualized rate of 3.5% during the third quarter, according to the initial estimate by the Bureau of Economic Analysis. That was slightly less than Q2's 4.6%, but still much stronger than during 2014's first quarter.
- The 248,000 new jobs created in September helped cut the U.S. unemployment rate from 6.1% to 5.9%; it's the first time since July 2008 that joblessness has been below 6%. Also, the Bureau of Labor Statistics said hiring during the prior two months was stronger than previously thought. However, at least some of the decline in the unemployment rate resulted from 97,000 people, such as retiring baby boomers, dropping out of the labor force. That brought the percentage of people in the workforce to 62.7%--the lowest participation rate since 1978.
- As expected, the Federal Reserve's monetary policy committee halted new bond purchases, which have helped support the economy for the last six years by making credit easier to get. The statement said that

Key Dates/Data Releases

11/3: Auto sales, ISM manufacturing report, construction spending

11/4: Balance of trade, factory orders

11/5: ISM services report

11/6: Business productivity/costs

11/7: Unemployment/payrolls

11/13: JOLTS job turnover report

11/14: Retail sales

11/17: Industrial production, Empire State manufacturing survey

11/18: Wholesale inflation, international capital flows

11/19: FOMC minutes, housing starts

11/20: Consumer inflation, Philly Fed manufacturing survey, home resales

11/21: Options expiration

11/25: Q3 revised GDP, home prices

11/26: Durable goods orders, personal income/spending, new home sales

despite improvements in the labor market and the overall economy, the committee sees inflation being held in check by lower energy prices. Therefore, it still anticipates the Fed funds interest rate will remain at its current level for "a considerable time." However, that timetable could be accelerated by unanticipated upticks in inflation and/or employment (or pushed back if either declines).

- As Fed bond purchases came to an end, the Bank of Japan went in the opposite direction, announcing it will expand its securities purchases. The move is designed to prevent potential deflation (Japan's 1% annual inflation rate is far below the central bank's 2% target). The added buying could help make Japanese exports cheaper.
- Eurozone manufacturing output saw its largest monthly decline since late 2008 in August, according to the European Union's statistical agency. The 4.3% decline in German industrial production was especially unsettling, and September's 0.3% annual inflation rate in the eurozone--the lowest level in five years--raised concerns about the possibility of deflation. To help combat that weakness, the European Central Bank will expand its bond purchases to include asset-backed securities and certain bank bonds, but declined to lower its key interest rate, at least for the time being.
- China's growth rate, while still robust compared to the rest of the world, slowed to 7.3% during the third quarter, according to the National Bureau of Statistics--below the 7.5% official target for annual growth. Real estate prices and sales continued to be a soft spot. To try to jump-start lending, China's central bank plans to inject roughly \$33 billion into its banking system.
- Data on the U.S. housing market was generally encouraging. September's 2.4% increase in existing-home sales represented the fastest growth of 2014, according to the National Association of Realtors®. New home sales also were up 0.2%, which put them 17% higher than in September 2013, and the Commerce Department said both housing starts and building permits were up for the month. However, home prices were a different story. The 0.2% increase in the S&P/Case-Shiller 20-City Composite Index in August represented the slowest annual growth rate in almost two years.
- U.S. inflation continued to be well-contained. Consumer prices rose 0.1% in September, which left the Consumer Price Index up 1.7% for the last 12 months. The Bureau of Labor Statistics said increases in food and housing outweighed a 0.7% drop in energy costs. Meanwhile, wholesale prices fell 0.1% in September, largely because of declines in both food and energy costs, though wholesale prices overall are 1.6% higher than in September 2013.
- Retail sales in the United States slipped 0.3% in September, though the Commerce Department said they were 4.3% ahead of a year earlier. The biggest declines were seen in building and garden supplies, clothing, and nonstore retailers, all of which were down more than 1% during the month.
- U.S. durable goods orders fell 1.3% in September, according to the Commerce Department. However, much of that was due to a 3.7% decline in the typically volatile transportation sector; excluding transportation, new orders were down 0.2%.

Eye on the Month Ahead

With the Fed's quantitative easing officially at an end and monetary policy meetings on hold until December, equities markets may begin to focus on what's left of earnings season as well as the jobs and inflation data that will affect future Fed actions. The results of Tuesday's midterm elections also could influence the mood of the markets.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. 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. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

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 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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