MONTH ENDING **NOVEMBER 30, 2015**

MarketUpdate

Markets struggle with conflicting news

U.S. stock markets bounced around throughout November, with early gains vanishing by mid-month but returning at month-end. The Dow Jones Industrial Average, S&P 500 Index, and Nasdaq were up 0.71 percent, 0.30 percent, and 1.09 percent, respectively. The best-performing stocks were those of small companies, with the smallest firms posting the largest gains. This outperformance suggests that investor risk appetite remains solid, though there may be concerns about the pricing of larger companies.

The small gains for most indices were driven by mixed fundamentals. Per FactSet, with 98 percent of S&P 500 companies reporting as of November's end, almost 74 percent had beaten their estimated earnings, but only 45 percent had higher-than-expected revenues. Technically, markets remain well supported, with all major indices well above their 200-day moving average trend lines at month-end.

The Barclays Capital Aggregate Bond Index was down 0.26 percent for the month, as the 10-year U.S. Treasury bond yield rose from 2.16 percent at the start of November to 2.21 percent by month-end. High-yield, reflected in the Barclays Capital U.S. Corporate High Yield Index, fared worse, down 2.22 percent.

The MSCI EAFE Index, covering developed countries outside the U.S., lost 1.56 percent, as the refugee crisis in Europe hurt growth. The MSCI Emerging Markets Index was hit even harder, declining 3.96 percent for the month. Technically, both indices showed weakness.

U.S. economy growing, but showing signs of slowing

Gross domestic product growth for the third quarter was revised up—to 2.1 percent from the initial estimate of 1.5 percent. This encouraging news was reinforced by a very strong jobs report at the start of November, with 271,000 jobs created and wage growth finally showing an increase. Personal income was strong, up 0.4 percent for October.

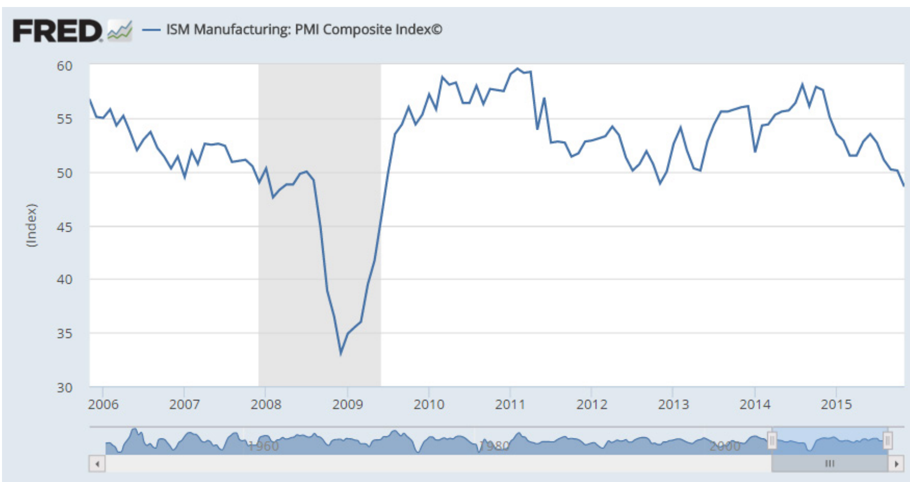
Even as jobs and income increased, consumer confidence declined and spending growth remained weak. In addition, housing starts, new home sales, and existing home sales were down from previous months.

Much of the economic weakness appeared to be in the industrials sector, with the ISM Manufacturing survey dropping in November to its lowest level since 2009 (see Figure 1).

At the same time, the services sector continued to do relatively well. Business confidence, from the ISM Nonmanufacturing survey, stayed at high levels, and employment and new orders were up strongly. Because services comprise seven-eighths of the economy, this is a positive indicator.

The October meeting minutes for the Federal Open Market Committee suggested that the Federal Reserve sees the economy as growing at a solid pace. Weakness seems attributable to the strong U.S. dollar and slow growth elsewhere, making export markets weaker and slowing demand for U.S. goods.

Figure 1. ISM Manufacturing PMI Composite Index Performance, 2006–2015



Source: Institute for Supply Management

The rest of the world continues to weaken

Europe still struggles with sluggish growth. The European Central Bank has continued its stimulus program and is widely expected to dial stimulus up at its next meeting.

Japan also continues to grow slowly, despite its own quantitative easing program. In addition, Russia is suffering from low oil prices and sanctions following its actions in Ukraine. China continues to report growth but at the cost of central bank-financed stimulus.

This global weakness will continue to hurt U.S. exports—through lower sales or a stronger dollar. Exports, however, are a relatively small part of the domestic economy, so damage should be limited. Further limiting any damage will be the positive effects of a stronger dollar, in particular the effect of making imports cheaper, especially oil.

Positive trends should persist through year-end

The many concerns around the world and the very real risks at home notwithstanding, the economic signs are positive. At the same time, the positive conditions have led to richly priced U.S. markets, leaving them open to a possible pullback.

Because of this risk, I believe a diversified, regularly rebalanced portfolio that harvests gains from fully priced areas and invests in more attractively priced options remains the best solution for most investors. A long-term perspective is still the outlook to adopt in an uncertain world.

All information according to Bloomberg, unless stated otherwise.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Barclays Capital Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Barclays Capital government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Barclays Capital U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners.

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