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Market Comments

Volatility is the name of the game in today's financial markets as the gripping effects were felt by one and all. The third quarter started slowly with Greece's "No" vote to the EU bailout, unsettling the broader markets. This doubt was quickly quelled weeks later as Greece blinked, stepping back from the ledge, yielding to EU pressure and ultimately agreeing to bailout terms and boosting the broader markets (domestically the S&P 500 finished up 1.6% in July). This move to the upside in the equity markets was short-lived as the combination of a slower growth China and a status quo Fed had a dampening effect upon any further momentum in the quarter.

Signs of a slower growth outlook for China (China's economy grew 6.9% in Q3, slowest in a quarter century) and the subsequent devaluation of the Yuan had rippling effects across the global markets as all world indices ended the third quarter down (the Shanghai Index was down 28.6%). As China transitions from an economy of investment to consumption, emerging markets are being most impacted. Highlighting the woes of emerging markets has been the decline of commodity prices, down approximately 40% from the peaks of 2011, driven by China's waning appetite for importing commodities. The Fed added to market consternation by not raising rates in September, making it almost a decade since the last U.S. rate hike, citing among other things fears of exacerbating slower growth abroad, i.e. China, 15% of global GDP. The Fed's no action also further squeezed emerging markets as a rising dollar has led to tightening monetary conditions, reducing capital flowing to larger emerging economies and encumbering the ability of governments and companies with US denominated loans to repay their loans.

The third quarter closed with S&P 500 finishing down 6.4% compared to down 0.1% a year ago. The largest drags in the quarter were seen in Energy (-17.4%), Materials (-16.9%) and Healthcare (-10.7%), due to a weakening commodities market (oil hit a six and half year low) and lackluster industrial production (Sept +0.4 % change year over year). The lone sector to the upside was Utilities (+5.4%) as investors flocked to safety amidst the volatility, seeking yield over growth. This was contrary to the second quarter of 2015 which saw Utilities as the worst performing sector and Healthcare leading (see sector chart below). We still believe greater upside exists in equities over fixed income, and specifically prefer domestic equities to international. Longer-term we continue to see encouraging signs from the US economy as housing improves, estimated 1.1 million housing starts in 2015, unemployment declines (U6 now at 10% vs 11.7% a year ago), and an overall slow and steady growing Gross Domestic Product (GDP). Estimates have the U.S. growing at 2.5% through year end.