Weekly Market Commentary
October 5, 2015

The Markets

Well, third quarter was a humdinger.

It began with the first International Monetary Fund (IMF) default by a developed country (Greece) and finished with Hurricane Joaquin possibly headed toward the east coast. In between, China's stock market tumbled, the Federal Reserve tried to interpret conflicting signals, and trade growth slowed globally.

After such a stressful quarter, we may see an uptick in the quantity of alcoholic beverages consumed per person around the world. That number had declined (along with economic growth in China) between 2012 and 2014, according to *The Economist*.

No Grexit – for now
Despite defaulting on its IMF loan, rejecting a multi-billion-euro bailout plan, and closing its banks for more than two weeks, Greece was not forced out of the Eurozone. Instead, Europe cooked up a deal that left the IMF unhappy and analysts shaking their heads.

The Economist reported the new deal for Greece was an exercise in wishful thinking. The problem is the deal relies on "the same old recipe of austerity and implausible assumptions. The IMF is supposed to be financing part of the bailout. Even it thinks the deal makes no sense." It's a recipe we're familiar with in the United States: When in doubt, defer the problem to the future.

A downturn in China
Despite reports from the Chinese government that it hit its economic growth target (7 percent) on the nose during the first two quarters of the year, *The Economist* was skeptical about the veracity of those claims. During the first quarter:

> "Growth in industrial production was the weakest since the depths of the financial crisis; the property market, a pillar of the economy, crumbled. China reported real growth (i.e., after accounting for inflation) of 7 percent year-on-year in the first quarter, but nominal growth of just 5.8 percent."

That statistical sleight of hand implies China experienced deflation early in the year. It did not.

On a related note, from mid-June through the end of the third quarter, the Shenzhen Stock Exchange Composite Index fell from 3,140 to about 1,716, according to *BloombergBusiness*. That's about a 45 percent decline in value.

Red light, green light at the Federal Reserve
Green light: employment numbers. Red light: consumer prices, inflation expectations, wages, and global growth. Late in the quarter, the Federal Reserve decided not to begin tightening monetary policy. According to *Reuters*, voting members of the Federal Open Market Committee (FOMC)

decided uncertainty in global markets had the potential to negatively affect domestic economic strength.

They may have been right. *The Wall Street Journal* reported, although unemployment remained at 5.1 percent, just 142,000 jobs were added in September. That was significantly below economists' expectations that 200,000 jobs would be created. *The Journal* suggested the labor market has downshifted after 18 months of solid jobs creation.

Global trade in the doldrums

The global economy isn't as robust as many expected it to be. According to the *Business Standard*, the World Trade Organization (WTO) lowered its forecast for global trade growth during 2015 from 3.3 percent to 2.8 percent. Falling demand for imports in developing nations and low commodity prices are translating into less global trade. Expectations are trade growth will be 3.9 percent in 2016, which could help support global economic growth.

Data as of 10/2/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.0%	-5.2%	0.3%	10.5%	11.4%	4.8%
Dow Jones Global ex-U.S.	0.7	-8.6	-10.3	0.8	0.0	0.9
10-year Treasury Note (Yield Only)	2.0	NA	2.4	1.6	2.5	4.4
Gold (per ounce)	-0.5	-4.9	-5.9	-13.7	-2.8	9.4
Bloomberg Commodity Index	-0.7	-15.8	-25.7	-16.1	-8.7	-6.9
DJ Equity All REIT Total Return Index	1.5	-3.3	9.2	9.4	11.6	6.8

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

CHANGE IS COMING. America's share of the global economy is potent. Our country accounts for 16 percent (after being adjusted for currency differences) of the world's gross domestic product (GDP) and 12 percent of merchandise trade. According to *The Economist*, we dominate "the brainiest and most complex parts of the global economy." Our presence is strong in social media, cloud computing, venture capital, and finance. In addition, the dollar is the world's dominant currency.

While the view from the top is pleasing, we may not be there forever. *The Economist* explained:

> "In the first change in the world economic order since 1920-45, when America overtook Britain, [America's] dominance is now being eroded. As a share of world GDP, America and China (including Hong Kong) are neck and neck at 16 percent and 17 percent respectively, measured at purchasing-power parity. At market exchange rates, a fair gap remains with America at 23 percent and China at 14 percent… But any reordering of the world economy's architecture will not be as fast or decisive as it was last time…the Middle Kingdom is a middle-income country with immature financial markets and without the rule of law. The absence of democracy, too, may be a serious drawback."

It may be hard to believe, in light of recent economic and market events in China, but change is on its way. Regardless, the influence of the United States should continue to be powerful well into the future.

Weekly Focus – Think About It

"Governing a great nation is like cooking a small fish – too much handling will spoil it."

--Lao Tzu, Chinese philosopher

Best regards,

Scott Lebin

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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