

# Economic & Market Review

~ October 2011 Investment Newsletter ~

Steven W. Lieberman, MBA, CFP® Summit Financial Resources, Inc. (973) 285-3637 [slieberman@sfr1.com](mailto:slieberman@sfr1.com)

## Monthly Summary

Stock markets rallied in October with the S&P 500 index delivering its best monthly return since December 1991. Key drivers behind the rally included excessive pessimism at the end of the third quarter, incrementally positive economic releases, and progress on the European sovereign debt front.

Despite low and declining consumer sentiment, retail sales, particularly autos, showed strength in September. In what is likely an unsustainable move, however, Americans saved less and spent more of their paychecks. The resulting four year low in the savings rate helped to fuel a 2.5% annualized gain in U.S. third quarter GDP. Business inventories rose and both the ISM Manufacturing index and the Fed's industrial production statistics confirm manufacturing continues to grow, albeit at a slower pace.

European leaders worked throughout the month to craft a plan to deal with sovereign debt issues and to halt related contagion. The resulting blueprint was somewhat shy on details but was much more aggressive than the roadmap laid out during the summer. Markets reacted favorably to the process as well as its results.

Significant uncertainty remains. The Congressional super committee has until November 23 to arrive at deficit reduction recommendations. Progress thus far appears limited and partisan squabbling is apparent. A further U.S. government debt downgrade may hang in the balance. As for monetary policy, the Fed is entertaining a QE3 plan targeted at the mortgage market. Last, but certainly not least, the call for a referendum in Greece on the latest bailout package throws the entire process into disarray with a "no" vote in January having potentially catastrophic ramifications.

## October's Economic Releases

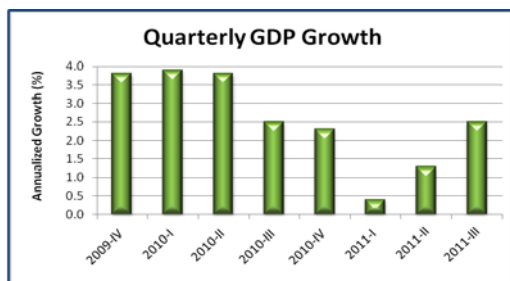
<b>General</b>	<b>Prior</b>	<b>Current</b>
GDP growth	1.3% (Q2)	2.5% (Q3)
Trade balance	-\$45.6 B (Jul)	-\$45.6 B (Aug)

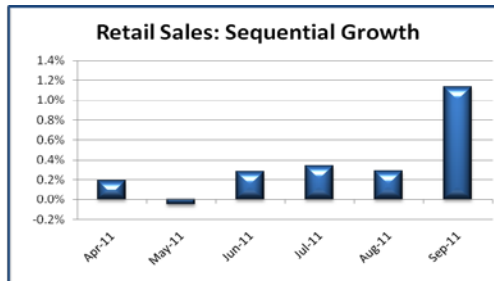
<b>Employment</b>	<b>Prior</b>	<b>Current</b>
Initial jobless claims	404,000	402,000
Continuing claims	3.7 MM	3.6 MM
Nonfarm payrolls	57,000 (Aug)	103,000 (Sep)
Unemployment rate	9.1% (Aug)	9.1% (Sep)
Average weekly hours	34.2 (Aug)	34.3 (Sep)

<b>Consumer</b>	<b>Prior</b>	<b>Current</b>
Consumer confidence index (Conf. Board)	46.4 (Sep)	39.8 (Oct)
Retail sales growth (YoY)	7.7 % (Aug)	7.5% (Sep)
Consumer credit	\$11.9 B (Jul)	-\$9.5 B (Aug)



Data Source: U.S. Bureau of Economic Analysis



Data Source: U.S. Census Bureau



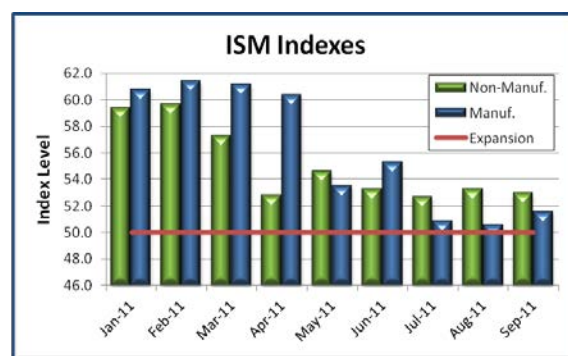
<b>Manufacturing &amp; Service</b>	<b>Prior</b>	<b>Current</b>
ISM manufacturing index	50.6 (Aug)	51.6 (Sep)
ISM non-manufacturing index	53.3 (Aug)	53.0 (Sep)
Durable goods orders growth	-0.1% (Aug)	-0.8% (Sep)
Industrial production growth	0.0% (Aug)	0.2% (Sep)
Capacity utilization	77.3% (Aug)	77.4% (Sep)

<b>Real Estate</b>	<b>Prior</b>	<b>Current</b>
New home sales	296,000 (Aug)	313,000 (Sep)
Existing home sales	5.1 MM (Aug)	4.9 MM (Sep)
Case-Shiller home price index (YoY)	-4.2% (Jul)	-3.8% (Aug)

<b>Inflation</b>	<b>Prior</b>	<b>Current</b>
Consumer price index/Core (YoY growth)	3.8%/2.0% (Aug)	3.9%/2.0% (Sep)
Producer price index/Core (YoY growth)	6.5%/2.5% (Aug)	6.9%/2.5% (Sep)



Data Source: The Conference Board



Data Source: Institute for Supply Chain Management

## Market Returns

The S&P 500 returned 10.9% for the month and is now up 1.3% for the year. Internationally, the MSCI EAFE Developed Markets index gained 9.6% in October while the MSCI Emerging Markets index rose 13.2% for the period. Year-to-date, international developed and emerging markets have lost 6.8% and 11.5%, respectively. Dollar movement this year has helped developed market returns and hindered those of emerging economies.

In the fixed income market, the Barclays U.S. Aggregate index was up 0.1% for the month and the 10-year U.S. Treasury bond ended with a yield of 2.09%, up 34 bps for the month and down 21 bps for the year. Inflation expectations have gradually trended down this year and high yield debt spreads contracted dramatically in October. Year-to-date, the Barclays U.S. Aggregate has gained 6.8%. Commodities gained 6.6% this month and are down 7.9% year-to-date while publicly traded REITs tacked on 13.6% to bring their gain this year to 5.8%.

**Disclaimers:** This market commentary was produced by Summit Financial Resources, Inc., 4 Campus Drive, Parsippany, NJ 07054. Tel: 973-285-3600, Fax: 973-285-3666. Sources of performance: Morningstar®. Indices are unmanaged and cannot be invested into directly. The investment and market data contained in this newsletter is not an offer to sell or purchase any security or commodity. Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The MSCI Developed Markets and Emerging Markets Indexes were created by Morgan Stanley Capital International (MSCI) and designed to measure equity market performance in global developed and emerging markets, respectively. The Barclays Aggregate Bond Index is a market capitalization-weighted index comprised of government securities, mortgage-backed securities, asset-backed securities, corporate securities, and a small number of foreign bonds traded in the U.S. It is used to represent the universe of bonds in the domestic market. REITs, Real Estate Investment Trusts, are securities that invest in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, however, have liquidity constraints. Past performance does not guarantee future results. Information throughout this newsletter, whether stock quotes, charts, articles, or any other statement or statements regarding markets or other financial information, are obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Neither we nor our information providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or for any delay or interruption in the transmission thereof to the reader. To unsubscribe from this investment newsletter please reply to this email with "unsubscribe" in the subject. Opinions expressed are subject to change without notice and are not intended as investment advice or a guarantee of future performance. Consult your financial professional before making any investment decision.

