Economic & Market Review

~ November 2013 Investment Newsletter ~

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Monthly Summary

Most key economic releases in November were stronger than expected. Despite the government shutdown in October, the labor market showed unexpected resilience. A corresponding plunge in consumer confidence also showed no impact on retail sales, which actually accelerated from the previous month. Moreover, GDP growth in the third quarter handily outperformed expectations. Resulting equity market gains were only enhanced by the news that the Senate Banking Committee voted to send Janet Yellen's nomination to the full Senate for confirmation. Yellen, for her part, performed admirably under interrogation. She demonstrated her bona fides as a monetary dove and assured markets that continuity would be maintained at the Federal Reserve.

Despite the positives, follow-through may be a challenge. Inventory gains accounted for 30% of third quarter GDP growth and may be reversed in the final quarter. Furthermore, the government shutdown will result in a 0.5% hit to economic output in the period. And continued uncertainty regarding U.S. fiscal policy may yet impact the consumer. After all, confidence has not been restored to pre-shutdown levels, and personal consumption spending growth has been slowing for the past two quarters.

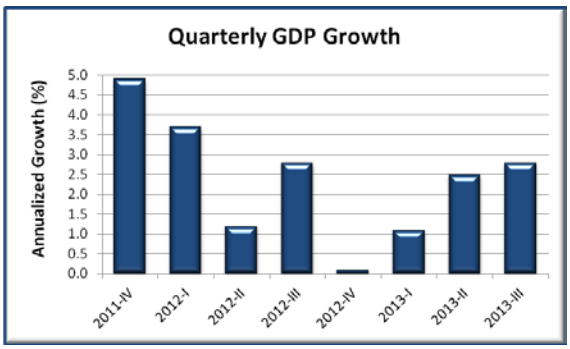
As for markets, stronger economic data could push the Federal Reserve to taper earlier than expected. Indeed, more than a few economists have posited a December tapering may be in store. Those offering such a premise suggest the Fed might attempt to blunt the inevitable market impact by extending the timeframe of their zero interest rate policy.

Economic Data

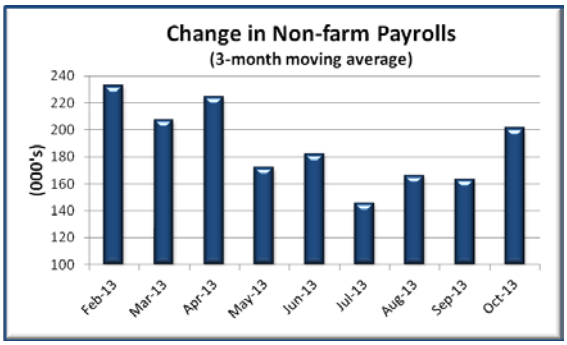
General	Prior	Current
GDP growth	2.5% (Q2)	2.8% (Q3)
Trade balance	-$38.7 B (Aug)	-$41.8 B (Sep)

Employment	Prior	Current
Initial jobless claims	326,000 (11/16)	316,000 (11/23)
Continuing claims	2.9 MM (11/09)	2.8 MM (11/16)
Change in nonfarm payrolls	204,000 (Sep)	163,000 (Oct)
Unemployment rate	7.2% (Sep)	7.3% (Oct)
Average weekly hours	34.4 (Sep)	34.4 (Oct)

Consumer	Prior	Current
Consumer confidence index (Conf. Board)	72.4 (Oct)	70.4 (Nov)
Retail sales growth (YoY)	3.3% (Sep)	4.3% (Oct)
Change in consumer credit	$14.2 B (Aug)	$13.7 B (Sep)



Data Source: U.S. Department of Commerce



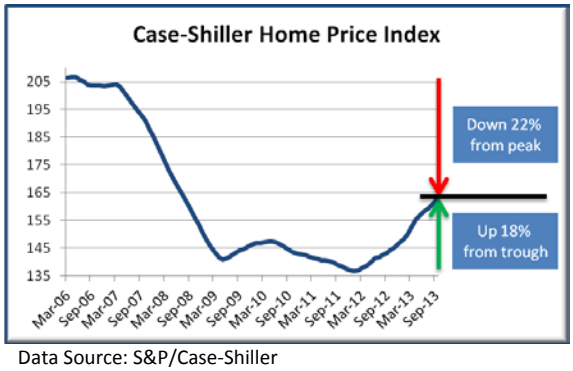
Data Source: U.S. Department of Labor

Manufacturing & Service	Prior	Current
ISM manufacturing index	56.2 (Sep)	56.4 (Oct)
ISM non-manufacturing index	54.4 (Sep)	55.4 (Oct)
Durable goods orders growth	4.1% (Sep)	-2.0% (Oct)
Industrial production growth	0.7% (Sep)	-0.1% (Oct)
Capacity utilization	78.3% (Sep)	78.1% (Oct)

Real Estate	Prior	Current
New home sales	390,000 (Jul)	421,000 (Aug)
Existing home sales	5.3 MM (Sep)	5.1 MM (Oct)
Case-Shiller home price index (YoY)	12.8% (Aug)	13.3% (Sep)

Inflation	Prior	Current
Consumer price index/Core (YoY growth)	1.2%/1.7% (Sep)	1.0%/1.7% (Oct)
Producer price index/Core (YoY growth)	0.3%/1.2% (Sep)	0.3%/1.4% (Oct)

Data Source: U.S. Federal Reserve



Data Source: S&P/Case-Shiller

Market Returns

The Barclays U.S. Aggregate index lost 0.4% for the month, and the yield on the 10-year U.S. Treasury note rose 18 basis points to end at 2.75%. For the year, the Barclays U.S. Aggregate is down 1.5%. High yield credit spreads compressed slightly during the month providing the Barclays High Yield index with a gain of 0.5%. The high yield index is up 6.9% so far this year. International bonds lost 1.1% for the month and are now down 2.5% for the year-to-date.

The S&P 500 gained 3.0% for the month bringing year-to-date gains to 29.1%. Developed international equity markets, as defined by the MSCI EAFE index, were up 0.8% in October while the MSCI Emerging Markets index lost 1.5%. Dollar strength against emerging market currencies accounted for losses incurred during the month. Year-to-date, international developed and emerging markets have returned 21.0% and -1.2%, respectively. In other markets, the DJ U.S. Real Estate index lost 4.7% for the month and the DJ Commodity index fell 0.8%.