WEEKLY MARKET WRAP

REVIEW & PREVIEW

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Global equities fell last week on risk aversion ahead of this coming Tuesday's US presidential election. Volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX) jumped to 21.5 from 15.25 a week ago, reflecting preelection jitters. Oil prices fell sharply during the week on doubts that OPEC will be able to reach an agreement to limit production and on a large rise in US crude inventories. West Texas Intermediate crude fell to $44.00 per barrel from $49.25 a week ago.

- **Economic Update:** US nonfarm payrolls rose slightly less than expected in October, adding 161,000. The unemployment rate ticked down to 4.9% and was neither a strong nor a weak report, but close to the Federal Reserve's (Fed) long-run projection of 4.8%. Noteworthy is the 2.8% year-over-year rise in average hourly earnings, which was the fastest pace since the global financial crisis. The trade deficit shrank in September to the smallest level in more than a year ($4.6 billion smaller than a year ago). In the past four months, exports are up $7.8 billion, the largest four-month rise since mid-2011. Adjusted for inflation, the "real" trade deficit in goods is $3.9 billion smaller than a year ago. The "real" change is the trade indicator most important for measuring real GDP.
- **ISM Improving**: the ISM manufacturing index rose to 51.9 in October, beating the consensus expected level of 51.7 (levels higher than 50 signal expansion; levels below 50 signal contraction). This reflects a modest but steady growth from the manufacturing sector in October as the ISM manufacturing index rose for a second consecutive month following August's surprise decline. While not booming, the October reading beats the average level of 51.0 for the first ten months of 2016. The largest improvement in October came in employment, where eleven of eighteen industries indicated growth.

  The ISM non-manufacturing index declined to 54.8 in October from 57.1 in September, coming in below the consensus expected 56.0. (Levels above 50 signal expansion; levels below 50 signal contraction). However, the growth was broad based, with thirteen of eighteen industries reporting expansion. Meanwhile, all major measures of activity remain above 50, signaling expansion.
- **Fed Holds Rates**: the Federal Reserve (Fed) held short-term interest rates steady last Wednesday and sent new hints that it expects to raise rates in December at its final scheduled meeting of 2016. The Fed's post meeting policy statement pointed to signs that inflation is firming, an indication officials are prepared to raise rates in the weeks ahead. It also included a subtle suggestion that the bar to raising rates for the first time in a year is low; saying it only needed "some further evidence" of economic progress before moving. The ISM numbers for October helped make the case with activity in the service sector grew for an 81st consecutive month.
- **Congratulation to the Cubs:** the Cubs won the World Series in dramatic fashion, breaking their 108-year curse.

Index/Portfolio Returns	*% Change Week*	*% Change QTD*	*% Change YTD*
Barclays Aggregate Bond	0.24%	-0.61%	5.15%
Barclays High Yield Bond	-1.10%	-0.45%	14.59%
Barclays Glb Agg Bond	1.29%	-1.77%	7.91%
JPM Emerging Mkts Bond	-0.27%	-1.68%	13.10%
S&P Equity 500 Index	-1.89%	-3.67%	3.88%
Russell 3000 All Cap Index	-1.86%	-4.04%	3.81%
Russell 2000 Small Cap Index	-2.01%	-6.97%	3.69%
NASDAQ Composite	-2.70%	-4.89%	1.86%
S&P Global BMI	-1.80%	-3.70%	3.43%
MSCI EAFE Index	-1.55%	-3.57%	-1.91%
MSCI EAFE Small Cap	-0.67%	-3.57%	1.43%
MSCI Emerging Markets	-2.57%	-2.51%	13.11%

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