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Market Month: October 2013

The Markets

Equities eventually managed to build on September's Fed relief rally, thanks to the end of the federal government shutdown, a halt to the debt ceiling impasse, anticipation of further delay in Fed tapering, and generally encouraging Q3 corporate earnings reports. The S&P 500, the Dow industrials, and the small-cap Russell 2000 saw new all-time record closes yet again, while the Nasdaq ended October neck-and-neck with the Russell as the year-to-date leader. The S&P has now risen more than 6% since its low point during the government shutdown, and if the Russell were to end the year where it ended October, it would be the index's fifth best annual percentage gain ever.* With continued healing in Europe, a pickup in Chinese manufacturing, and the postponement of potential Fed tightening, the Global Dow edged out its domestic counterpart, not only for the month but for all of 2013.

Removal of the threat of default on U.S. debt relieved pressure on short-term Treasury bills, bringing the yield back below that of one-year notes, while the 10-year yield remained comparatively stable throughout the month. After spending more than three months above \$100 a barrel, the price of oil finally slipped to roughly \$96. Gold also slid in October, losing roughly \$67 an ounce and ending the month just under \$1,350.

Market/Index	2012 Close	Prior Month	As of 10/31	Month Change	YTD Change
DJIA	13104.14	15129.67	15545.75	2.75%	18.63%
Nasdaq	3019.51	3771.48	3919.71	3.93%	29.81%
S&P 500	1426.19	1681.55	1756.54	4.46%	23.16%
Russell 2000	849.35	1073.79	1100.15	2.45%	29.53%
Global Dow	1995.96	2310.26	2410.12	4.32%	20.75%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.78%	2.64%	2.57%	-7 bps	79 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

The Month in Review

- December is now the next foreseeable turning point in the Washington budget battles. That's when a report is due from a joint congressional budget conference established by the agreement that ended 16 days of partial government shutdown and debt ceiling gridlock. The legislation also suspended the debt ceiling through February 7 and provided government funding through January 15.
- The nation's unemployment rate continued to inch downward, hitting 7.2% in September (the most recent data available from the Bureau of Labor Statistics.) That's the lowest since November 2008. However, the 148,000 jobs added during the month fell short of the monthly average for the past year.
- The most recent S&P/Case-Shiller 20-City Composite Index reflected the biggest year-over-year gains (nearly 13% in August) in home prices since early 2006, though the pace of those gains has begun to slow over the last several months. Sales of existing homes also showed signs of slowing, falling almost 2% in September, according to the National Association of Realtors®. Because of the federal shutdown, data on new home sales for September and October won't be released until December 4.
- Increases in the cost of energy and housing pushed consumer prices up 0.2% in September, according to the Bureau of Labor Statistics. That put the inflation rate for the past 12 months at 1.2%, its lowest level in almost 3 years. Wholesale prices fell 0.1% during the month, leaving wholesale inflation for the last 12 months at a paltry 0.3%.

- A 2.2% decline in auto sales cut retail sales by 0.1% in September, according to the Commerce Department, though non-auto sales rose 0.4%. The shutdown delayed until December the most recent Bureau of Economic Analysis data on personal income and spending.
- Durable goods orders were up 3.7% in September, but according to the Commerce Department, a 57.5% increase in orders for aircraft was responsible for almost all of that. Non-transportation orders were down 0.1%, though business spending on capital equipment rose almost 7%. The Institute for Supply Management reported that growth in U.S. manufacturing activity accelerated in September as its gauge hit the highest reading of the year; however, the ISM's measure of the services sector showed slowing growth.
- Noting the recent slowing of the housing recovery and employment that still hasn't fallen to its target of 6.5%, the Federal Reserve's monetary policy committee decided to continue buying \$85 billion worth of bonds a month, at least until the Fed's next meeting in December. Also, President Obama nominated Federal Reserve vice chairman Janet Yellen to replace Ben Bernanke when the Fed chairman's term expires January 31.
- Massive lending in the first two quarters and government spending on urban infrastructure helped accelerate Chinese economic growth in the third quarter. According to the country's National Bureau of Statistics, the 2.2% increase from Q2 would represent an annualized 9.1% growth rate, higher than the 7.8% increase seen over the past year.
- Release of the initial estimate of Q3 economic growth, normally available in October, was delayed until November because of the federal government shutdown. Globally, the International Monetary Fund's revised forecast of 2.9% growth worldwide in 2013 would be the slowest growth in four years, though it sees an improvement to 3.6% growth in 2014.

Eye on the Month Ahead

As institutional investors eye the approach of year's end, they'll start to adjust portfolios to make sure their performance doesn't suffer by comparison with stellar benchmark returns so far this year. Data on U.S. economic growth in the third quarter will finally be available, and Federal Open Market Committee minutes could suggest member sentiment about the timing of future tightening.

Key dates and data releases: auto sales, U.S. manufacturing (11/1); factory orders (11/4); U.S. services sector (11/5); initial estimate of Q3 gross domestic product (11/7); unemployment/payrolls, personal incomes/spending (11/8); balance of trade (11/14); industrial production, Empire State manufacturing survey, options expiration (11/15); international capital flows, homebuilders survey (11/18); employment cost index (11/19); consumer inflation, retail sales, home resales, business inventories, Federal Open Market Committee minutes (11/20); wholesale inflation, Philly Fed manufacturing survey, leading economic indicators (11/21); housing starts for September and October, home prices, second estimate of Q3 GDP (11/26); durable goods orders, personal income/spending (11/27).

Data sources: All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. Market data: U.S. Treasury (Treasury yields); WSJ Market Data Center (equities); Federal Reserve Board (Fed Funds target rate); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold, NY close); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. Equities data reflects price changes, not total return.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.

*Based on data from the "Stock Trader's Almanac 2013."