MURRAY
INVESTMENT MANAGEMENT

3rd Quarter 2015 Update

Economic Review

The U.S. economy continued to expand during the 3rd quarter with growth estimates around 2%. This is somewhat of a slowdown compared to the 3.9% change that we had during the 2nd quarter.

The U.S. continued to add jobs during the quarter but at a less robust pace than the first part of the year. We averaged 167,000 new jobs / month during 3Q15 compared to 213,000 / month during the first part of the year. The unemployment rate fell to 5.1%, but wage growth was modest, which is keeping inflation in check.

The biggest news of the quarter was the Federal Reserve choosing not to raise rates at its September meeting. Slowing global growth (led by China) and its potential impact on the U.S. factored into the Fed's decision to wait.

Equity Market Performance

	QTD	YTD
S&P 500	-6.44%	-5.29%
MSCI EAFE (International index net return)	-10.23%	-5.28%
Rusell 2000 (small cap)	-11.92%	-7.73%

Equity markets were down sharply with increased volatility during the quarter and produced the weakest quarterly returns that we have seen since 2011. Slowing global growth and weak commodity prices contributed to the selloff.

Domestically, the energy space was particularly weak (down over 15%) and was the worst performing sector during the quarter. International and emerging markets produced very poor returns and underperformed relative to domestic markets.

Bond Market Performance

	QTD	YTD
Barclays US Aggregate Bond (Broad Bond Market)	1.23%	1.13%
Barclays Municipal	1.65%	1.77%
Barclays US Treasury Long	5.08%	0.17%
Barclays US Corporate	0.83%	-0.10%
Barclays US Corporate High Yield	-4.86%	-2.45%

The yield on the 10 year treasury fell from 2.35% to 2.06% as equity market volatility pushed investors into the safety of U.S. treasuries. With that move, bond markets were generally positive during the quarter, but the high yield space (which is generally viewed as more risky) produced negative returns.

Economic Outlook

The U.S. economy appears to be in decent shape and should continue to grow at modest rates in the near term, but a strong U.S. dollar and a general global slowdown are weighing on growth, particularly manufacturing and exports. The U.S. consumer (70% of GDP), however, is reaping the benefits of lower energy prices and a better employment situation. Stronger consumer spending should drive further gains in GDP growth, but investors will continue to watch the impact that slowing global growth has on the U.S.

The timing of a Fed rate hike will be scrutinized heavily for the remainder of the year and into 2016. The Fed is balancing modest inflation and a general global slowdown against a growing U.S. economy and a solid employment situation. While a rate hike before the end of the year is a possibility, many now think that they will wait until 2016.

Market Outlook

Investors should expect continued elevated market volatility as we move through the end of the year. The Fed will likely raise rates in the next 3 – 6 months which could lead to increased equity market volatility but will not necessarily lead to poor equity performance. Whether investors focus on the reason for the rate change (a better economy) or the result of the rate change (increased borrowing costs) will impact the longer term direction of equity markets.

With the recent selloff, market multiples have become more attractive, but there is some concern that corporate earnings could be under pressure due to a strong dollar and weaker global growth. The strength of the U.S. consumer could offset these headwinds and drive earnings and markets higher.

Consistent with what we have seen over the last several years, interest rates remain low, and the risk / reward profile for many fixed income securities is not very favorable with very few attractive options. If rates increase, however, this view could change, and portfolios would be adjusted accordingly. Currently, holding a larger level of cash and shorter term securities in the fixed income allocation seems to be a reasonable approach.

Murray Investment Management

If you would like help with establishing an investment plan or would like to schedule a portfolio review, please give us a call. Also, please pass along our name to anyone that may be in need of investment advice.

Source: bls.gov, frbatlanta.org, Morningstar, bea.gov, Bloomberg and treasury.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 09/30/2015. Except as noted, index returns are total returns.

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