MADISON PARK
CAPITAL ADVISORS

Weekly Market Update

October 5, 2015

Increasing Cloudiness for the Rate Hike Outlook

Those of us residing in the Great Northwest are used to forecasts that involve increasing clouds and decreasing visibility. Last week the financial markets had the opportunity to empathize as a disappointing monthly jobs report indicated surprising softness in the U.S. economy, causing Treasury yields to fall throughout the week and fueling investor concerns over global economic growth. Markets were left to grapple with a new layer of uncertainty clouding what previously had been increasing certainty over the outlook for Fed rate hikes.

On Monday, August personal income was slightly below and personal spending came in just above consensus expectations. As a result, Treasury yields fell slightly, and fell again on Tuesday as global uncertainties increased demand for safe-haven assets. The ADP employment survey beat expectations on Wednesday, despite the recent pullback in the stock market.

Yields continued to decline on Thursday as the number of Americans filing for unemployment benefits increased by more than expected, maintaining a recent pattern of gains and losses. Friday brought the big news of the week, as the September employment report showed employers added only 142,000 jobs to nonfarm payrolls, falling well below consensus expectations of 201,000. The 10-year Treasury fell below the psychologically important 2% level as a result, strengthening the case that growth and inflation are not strong enough for the Fed to raise short-term interest rates this year.

Reflecting the newly muddled picture, stocks were mixed. The S&P 500 returned 1.1%, yet the S&P Smallcap Index fell 1.18% in what could be considered a flight to safety in equities. As of Friday's close, the S&P sports a P/E ratio of 17.27 and a dividend yield of 2.22%. The week also marked the end of the fiscal third quarter on Wednesday. A late week recovery in the S&P 500 came too late to avoid a third quarter loss of 6.44%, and a year-to-date loss of 3.72% (including dividends) through Friday.

With the onset of earnings reporting season next week, we will close with some good news regarding analyst earnings expectations. With all major indices trading well below all-

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time highs after the August and September correction, consensus earnings estimates from equity analysts (tracked by Bloomberg) reflect an upward trajectory for all three major U.S. indices through 2017. Since corporate earnings drive the direction of stock prices over the full business cycle, the implication is positive for equity prices. Time will tell if the analyst community's crystal ball is cloudy or clear.

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