

Stocks Post Best Quarterly Gain of the Year

October 3, 2016 - U.S. stocks rebounded on Friday, recovering most of Thursday's near 1% decline. The reason? Beleaguered Deutsche Bank AG is reportedly poised to settle the U.S. Department of Justice claim for \$5.4B, less than half of their original amount request. The DOJ said they were open to negotiations to settle its \$14B claim for errant practices in selling residential mortgage-backed securities (MBS). Financials led Friday's rebound, while Energy gained the most last week after OPEC surprised Wall Street with a framework agreement to cut oil production in November. Friday's recovery helped extend the modest equity rally into a third week and cap the S&P 500 with its fourth quarterly gain. The S&P 500 gained 3.85% in the third quarter, its strongest quarterly performance of the year.

In key economic news last week, new home sales declined 7.6% in August following an upwardly revised 13.8% July increase. The S&P/CoreLogic Case/Shiller 20-city Home Price Index continued to slip lower, down 0.07% in July, even as prices rose 5.1% year-over-year. The IHS Markit flash PMI index for service activity expanded to 51.9 in September from 51 the month prior, and the Conference Board's Consumer Sentiment Index rose to 104.1, a nine-year high. Lastly, Commerce Department officials upwardly revised the pace of second quarter GDP growth to 1.4% from its 1.1% previous estimated.

For the week, the S&P 500 gained 0.20%, the Dow Industrials added over 46-points (+0.26%), and the NASDAQ Composite rose 0.13%. Five of the 11 major sector groups posted gains last week, led by a 4.64% jump in Energy, followed by Industrials (+1.05%) and Materials (+0.98%). Utilities (-3.75%), Real Estate (-1.68%), and Healthcare (-1.40%) lagged the most. The US Dollar Index was essentially unchanged, ending the week at 95.463 versus 95.477 the prior week. U.S. crude oil prices jumped 8.45% last week, finishing Friday at \$48.24/bbl. Treasury securities rose last week, with the yield on 10-year Treasury notes ending the month and quarter at 1.595%.

What We're Reading

Stock Buybacks in Vogue, Perhaps Briefly ↗

Brexit 2-Year Process to Start by End of March ↗

Yuan Joins IMF Reserve, But Not Yet a Global Reserve ↗

These links to outside web sites are provided as a courtesy and are not under the control of Tower Square Investment Management LLC. For more details, please see the "Disclosures" section.

Week's Economic Calendar

Monday, October 3: PMI Manufacturing, ISM Mfg Index, Construction Spending;

Tuesday, October 4: No major releases;

Wednesday, October 5: Mortgage Applications, ADP Private Jobs, Trade Deficit, PMI Services Index, Factory Orders, ISM Non-Mfg Index;

Thursday, October 6: Challenger Job Cut Announcements, Jobless Claims;

Friday, October 7: September Non-farm Payrolls, Consumer Credit.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.26%	-0.50%	2.11%	5.07%	12.40%	6.56%
S&P 500	0.20%	0.02%	3.85%	7.84%	15.40%	11.16%
NASDAQ Composite	0.13%	1.96%	10.02%	7.09%	16.39%	13.45%
Russell 3000	0.17%	0.16%	4.40%	8.18%	14.93%	10.44%
MSCI EAFE	-0.68%	1.23%	6.43%	1.73%	6.50%	0.485
MSCI Emerging Markets	-1.51%	1.29%	9.03%	16.02%	16.75%	-0.56%

Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.06%	-0.06%	0.46%	5.80%	5.18%	4.02%
Barclays Municipal	0.04%	-0.50%	-0.30%	4.01%	5.57%	5.54%
Barclays US Corp High Yield	0.39%	0.67%	5.55%	15.11%	12.71%	5.28%

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	1.21%	3.13%	-3.86%	8.87%	-2.57%	-12.34%
S&P GSCI Crude Oil	8.45%	7.92%	-0.19%	30.24%	6.97%	-22.17%
S&P GSCI Gold	-1.83%	0.43%	-0.27%	24.23%	18.06%	-0.25%

Source: Morningstar

Chart of the Week: Sector Outlook for Third Qtr Earnings

S&P 500 Y/Y Growth in Operating EPS Estimates					
S&P 500 Sector	2016 EPS % Changes				Year
	Q1A	Q2A	Q3E	Q4E	
Consumer Discretionary	21.3	14.6	2.3	5.3	10.2
Consumer Staples	0.8	(0.8)	4.1	8.8	3.3
Energy	(106.6)	(86.1)	(65.5)	(8.3)	(76.5)
Financials	(15.4)	(7.8)	18.3	26.9	4.4
Health Care	8.0	6.3	4.0	7.5	6.4
Industrials	(3.3)	13.5	(2.4)	0.8	2.2
Information Technology	(4.0)	2.2	3.6	4.6	1.8
Materials	(11.4)	(4.2)	8.6	24.0	2.2
Real Estate*	69.7	12.5	(11.3)	(3.9)	18.7
Telecom. Services	9.1	(2.6)	(2.8)	2.3	1.3
Utilities	(2.5)	11.3	4.5	15.7	6.2
S&P 500	(6.8)	(1.8)	(0.8)	6.3	(0.7)

Source: S&P Global Market Intelligence, * S&P Dow Jones Indices.
Data as of 9/30/16.

The third-quarter (3Q) corporate earnings reporting season is now underway. As of September 30, 2016, S&P Global Market Intelligence's aggregate 3Q 2016 S&P 500 operating earnings per share (EPS) estimate is \$29.40, down 0.8% on a year-over-year basis (versus the \$29.64 in 3Q 2015). While this is projected to be the lowest quarterly earnings decline this year (and positive next quarter), this decline represents the first time since 2009 that the S&P 500 posted year-on-year EPS declines in five successive quarters.

Surprisingly, as the above chart shows, a full seven of 11 S&P 500 sectors are expected to post positive earnings growth for the third quarter, with Consumer Staples, Financials, Materials, and Utilities leading the way. Among laggards (red numbers in parenthesis), the energy sector continues to weigh heavily on the Index. The other sectors projected to show declines are Industrials, Real Estate, and Telecommunications. Excluding the energy drag, S&P 500 EPS would be up 2.5% in the quarter.

This report is created by Tower Square Investment Management LLC

About Tower Square Investment Management®

Tower Square Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. It provides investment research, portfolio and model management, and investment advice to its affiliated broker-dealers, dually registered broker-dealers and registered investment advisers.

Disclosures

The material contained in this document was authored by and is the property of Tower Square Investment Management LLC. Tower Square Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Tower Square Investment Management and did not take part in the creation of this material. He or she may not be able to offer Tower Square Investment Management portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Tower Square Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about Tower Square Investment Management strategies and available advisory programs, please reference the Tower Square Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your adviser is registered with. Please consult with your adviser for his or her specific firm registrations and programs available.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are unmanaged. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.

The yield on high yield bonds is due, in part, to the volatility and risk of the high securities market. High yield bonds are also known as “junk bonds”.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

Affiliates and subsidiaries and/or officers and employees of Cetera Financial Group or Cetera firms may from time to time acquire, hold or sell a position in the securities mentioned herein.

While diversification may help reduce volatility and risk, it does not guarantee future performance.

Links to outside web sites are provided as a courtesy and are not under the control of Cetera Financial Group or its affiliated firms. We make no representation as to the completeness or accuracy of information provided at these web sites. Nor is the company liable for any direct or indirect technical or system issues or any consequences arising out of your access to or your use of third-party technologies, web sites, information and programs made available through this web site. When you access one of these web sites, you assume total responsibility and risk for your use of the linked web sites.

Glossary

The **Barclays U.S. Aggregate Bond Index** is an unmanaged index composed of Barclays Credit government bond index, mortgage backed securities index, and asset backed securities index and is generally representative of the US Bond market.

The **Barclays U.S. Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

The **Barclays U.S. Municipal Bond Index** is an unmanaged, market-value-weighted index of investment-grade municipal bonds with maturities of one year or more.

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).

The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

The **CRB Index** is a pricing index that measures changes in the price of 22 commodities that are believed to be among the first to react to changes in economic conditions.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **Hang Seng Index** is a market capitalization weighted index of the stocks of the 33 largest companies in the Hong Kong market. The Hang Seng Index is a price weighted/share price index which measures movements in the prices of shares, but not of their dividends.

The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

MSCI Emerging Markets is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **NASDAQ 100 Index** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No individual listing can have more than a 24% weighting. Launched on February 1, 1985, the index carried a base value of 125.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.

The **Producer Price Index** is a family of indexes that measures the average change over time in the selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with other measures, such as the Consumer Price Index (CPI), that measure price change from the purchaser's perspective.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The **S&P GSCI Gold Index**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark tracking the COMEX gold future.

*The **S&P GSCI Crude Oil Index** is a sub-index of the S&P GSCI and provides investors with a publicly available benchmark for investment performance in the crude oil market.*

*The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.*

*The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.*