



PAULA PORSCHE
WEALTH MANAGEMENT

together through life

Paula Porsch Wealth Management Presents:

MONTHLY ECONOMIC UPDATE

October 2016

MONTHLY QUOTE

“Good people are good because they’ve come to wisdom through failure.”

- *William Saroyan*

MONTHLY TIP

Yes, you can take a tax deduction if you have a mortgage – but the tax break may be less significant than you think it is, and you may decide it is better to retire that debt before your retirement.

MONTHLY RIDDLE

What grows when it eats, but dies when it drinks?

Last month’s riddle:

They are bought and often costly, yet used for hanging only. What are they?

Last month’s answer:

Earrings.

THE MONTH IN BRIEF

Investors had plenty of news to absorb in September: the latest monetary policy statement from the Federal Reserve, the Wells Fargo fiasco and the crisis involving Deutsche Bank, and a major deal forged between OPEC member nations. Add in the presidential race and a raft of economic data, and you had all the ingredients for market turbulence. Wall Street saw much of that last month. Yet, at the close on September 30, the S&P 500 was little changed from the end of August – the index was just 0.12% lower. The latest housing indicators showed fewer home sales and less groundbreaking; hiring tapered off, and news came that the manufacturing sector had abruptly contracted. Even so, consumer confidence strengthened.¹

DOMESTIC ECONOMIC HEALTH

Would the Federal Reserve raise the key interest rate in September? As it turned out, no. The Fed elected to postpone a rate hike, a decision in line with market expectations. The 7-3 vote was, however, unusually close, and the latest Fed dot-plot indicated consensus for a rate increase before the end of the year. At the press conference following the release of the Federal Open Market Committee’s statement, Fed chair Janet Yellen noted that the FOMC is “generally pleased with how [the] economy is doing.”²

Main Street seemed to share that feeling as well. Both of the key consumer confidence polls ended September higher. The University of Michigan index went from 89.8 at the end of August to a final September mark of 91.2, while the Conference Board’s gauge went north 3.0 points to a very strong reading of 104.1.^{3,4}

These numbers may hint at stronger personal spending. The Department of Commerce’s September report on that subject will arrive late this month; the August data left something to be desired. Personal spending was flat in the eighth month of the year even as personal incomes rose 0.2%. August retail sales fell 0.3%, with the retreat at 0.1% minus gasoline and auto purchases. August brought a 0.2% advance for the Consumer Price Index, with core prices rising 0.3%; in annualized terms, America had experienced 2.3% core consumer inflation in the past 12 months.^{3,4}

The August jobs report from the Department of Labor looked pretty mediocre: the net job gain was 151,000. As unimpressive as this was, the 3-month moving average for job growth was much better at 232,000. Year-over-year wage growth came in at 2.4% in August, as opposed to 2.7% a month earlier. The unemployment rate remained at 4.9%; the U-6 rate including the underemployed stayed at 9.7%.⁵

In late September, the Bureau of Economic Analysis closed the book on Q3 GDP. The final number (which actually could still be revised years from now): 1.4%.³

At the start of September, an Institute for Supply Management report showed that the U.S. manufacturing sector had suddenly contracted. ISM’s factory purchasing manager index came in at just 49.4 in August, a startling drop from the 52.6 mark recorded for July. ISM’s non-manufacturing PMI also plunged: the service sector grew in August at its slowest pace in more than six years as the index slipped from 55.5 to 51.4. Wholesale prices – as measured by the Producer Price Index – were not only flat for August, but flat year-over-year. Headline hard goods orders were also

unchanged in August.^{4,6}

A long-brewing scandal at one of the nation's major financial institutions came to a head. Wells Fargo agreed to pay \$190 million in fines to regulators as punishment for its employees creating as many as 2 million phony credit card and deposit accounts. The bank announced it would pare its payrolls of 5,300 workers as a result of the scandal, which was linked to employees trying to meet sales goals. Wells Fargo CEO John Stumpf was summoned to the nation's capital for a grilling before the House Financial Services Committee and faced public pressure to resign.⁷

GLOBAL ECONOMIC HEALTH

Wells Fargo wasn't the only financial giant in hot water in September: some investors wondered if Deutsche Bank was at risk of becoming the next Lehman Brothers. This summer, its U.S. unit failed the Federal Reserve's banking stress test (again), and barely passed a similar test in Europe; S&P Global Ratings changed its outlook for Deutsche Bank to negative. In June, the International Monetary Fund identified it as "the most important net contributor to systemic risks in the global banking system." Meanwhile, the bank is scheduled to pay out \$14 billion in fines to the Department of Justice for misconduct (Fitch thinks the figure could eventually be reduced to the vicinity of \$5 billion). As CNBC notes, reports have surfaced that Germany's government is not willing to bail out Deutsche Bank in a worst-case scenario.⁸

For the first time since 2008, OPEC member countries agreed to cut oil production. The deal was announced September 29, and the news immediately took the price of WTI crude above the \$48 level. The pact ended a long stalemate between Iran and Saudi Arabia that had held up prior attempts to curb output. This accord will essentially put the OPEC daily production limits of a year ago back in place, and it could be extended in November to include non-member nations such as Russia.⁹

WORLD MARKETS

As many global benchmarks seemed to advance as retreat in September. Argentina's ever-turbulent Merval index took the biggest leap up, gaining 5.94%. Smaller gains came for the Hang Seng (1.22%), the FTSE 100 (1.15%), the MSCI Emerging Markets Index (1.09%), the IBEX 35 (1.08%), the MSCI World Index (0.36%), the TSX Composite (0.28%), the Bovespa (0.22%), and the KOSPI (0.19%).^{10,11}

Some September losses were major. The Shanghai Composite drifted down 2.25%; the Sensex, 1.68%; and the Nikkei 225, 1.65%. The DAX fell 1.38% on the month. Other key indices kept their losses under 1%, such as Australia's All Ordinaries (0.87%), Mexico's Bolsa (0.67%), and France's CAC-40 (0.21%).¹⁰

COMMODITIES MARKETS

Overall, September was a very positive month for commodity futures. Gold settled at \$1,318.80 on the COMEX on September 30; silver, at \$19.24. Gold rose 0.70% for the month; silver, 2.87%. Copper futures jumped 6.40%, but platinum futures sank 2.76%. The U.S. Dollar Index lost 0.59%.^{12,13}

Among energy futures, heating oil jumped 8.71% as fall approached; natural gas rose 0.80%. Oil ended September at \$48.05 on the NYMEX, up 7.11% for the month; unleaded gasoline advanced 3.04%. As for crops, corn gained 11.03%; wheat, 10.82%; and sugar, 12.15%. Coffee advanced 4.31% in September; cotton, 4.23%. Cocoa futures fell 4.83%, and soybean futures gave back 0.42%.¹²

REAL ESTATE

Slim inventory weighed on home sales. The National Association of Realtors said that resales retreated 0.9% for August, and there was also a 2.4% dip in pending sales. New home buying, according to the Census Bureau, fell 7.6% a month after reaching a peak unseen since October 2007 in July.^{3,14}

Housing starts and building permits both declined in August – the former indicator

was down 5.8%; the latter, 0.4%. The latest Case-Shiller home price index also retreated a bit; the July edition showed a 5.0% overall annual advance in the 20-city composite index, down from 5.1% in June.^{3,4}

Many economists foresee an interest rate hike by the Federal Reserve before 2016 ends, but that presumption did not pressure mortgage rates in September. Eyeing Freddie Mac's Primary Mortgage Market Surveys, the average interest rate for the 30-year FRM was 3.46% on September 1, and 3.42% on September 29. Average interest on the 15-year FRM declined from 2.77% to 2.72% in that span; rates for 5/1-year ARMs averaged 2.83% on September 1 and 2.81% on September 29.¹⁵

LOOKING BACK...LOOKING FORWARD

The Nasdaq Composite had a fine September, rising 1.70% to finish the month at 5,312.00. Like the S&P 500, the Dow Jones Industrial Average went red in September, losing 0.79%. The S&P ended the month at 2,168.27 thanks to its 0.12% loss; the Dow, at 18,308.15. While this is shaping up to be a decent year for all three of those benchmarks, their performance so far pales next to that of the PHLX Gold/Silver Index, which closed September up at a phenomenal 107.53% YTD.^{1,16}

In addition to the YTD numbers for the big three below, there are two others certainly worth noting – the Russell 2000 ended September at +10.19% on the year; the CBOE VIX, at -27.02%.¹⁶

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+5.07	+12.43	+13.55	+5.68
NASDAQ	+6.08	+14.97	+23.98	+13.52
S&P 500	+6.08	+12.93	+18.33	+6.23
REAL YIELD	9/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.00%	0.65%	0.17%	2.27%

Sources: wsj.com, bigcharts.com, treasury.gov – 9/30/16^{16,17,18,19}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

October shapes up as a busy month with another earnings season getting underway, and investors awaiting both the presidential election and an FOMC meeting in early November. In short, there is a fair amount of uncertainty in the air, perhaps enough to hold stocks back in the next few weeks. Could this earnings season surpass expectations? Analysts certainly aren't expecting much. (For that matter, FactSet data has S&P 500 earnings down an average of 2.1% so far for Q3; Q3 would mark the sixth straight quarter with a year-over-year earnings decline.) Even so, October may surprise us: for all the stock market dramas associated, historically, with the month, the fact is that the S&P 500 has performed better in October than in any other month over the past 20 years. Its average October gain in that time frame: 2.1%. History does not easily repeat, but bulls can draw some encouragement from that statistic as October unfolds.²⁰

UPCOMING ECONOMIC RELEASES: The roll call for the balance of October is as follows: the ISM service sector PMI, ADP's September employment change report and August factory orders (10/5), the September Challenger job-cut numbers (10/6), the September jobs report from the Department of Labor (10/7), the minutes from September's FOMC meeting (10/12), the September PPI, September retail sales and the preliminary October consumer sentiment index from the University of Michigan (10/14), September industrial output (10/17), the September CPI (10/18), September housing starts and building permits and a new Federal Reserve Beige Book (10/19), September existing home sales (10/20), the August S&P/Case-Shiller home price index and a fresh consumer confidence index from the Conference Board (10/25), September new home sales (10/26), September capital goods orders and pending home sales (10/27), the initial estimate of Q3 GDP and the month's final University of Michigan consumer sentiment index (10/28), and then the September consumer spending report and September PCE prices (10/31). The Federal Reserve's

next monetary policy announcement is scheduled for November 2.

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The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Korea Composite Stock Price Index or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The BSE SENSEX (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE). Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The All Ordinaries (XAO) is considered a total market barometer for the Australian stock market and contains the 500 largest ASX-listed companies by way of market capitalization. The Mexican Stock Exchange commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. The PHLX Gold/Silver Sector Index (XAU) is a capitalization-weighted index composed of companies involved in the gold or silver mining industry. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. All economic and performance data is historical and not indicative of future results. Market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. 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