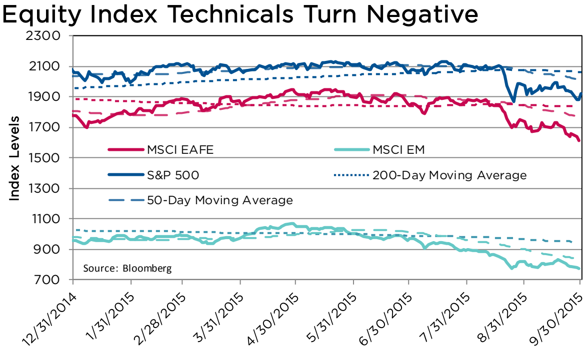
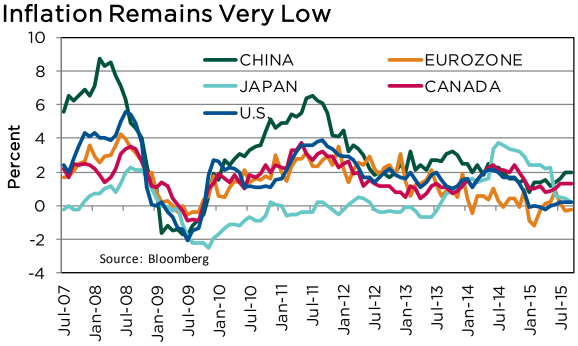
ECONOMIC REVIEW SEPTEMBER 2015

Stock markets fell during September as investors confronted a dearth of positive economic news. On September 17, the S&P 500 began a slide that would see it lose 5.7% over eight days, with concurrent losses of similar magnitude across non-U.S. stocks. The Federal Reserve (FOMC), citing the need to better assess inflation, employment and foreign financial developments, held interest rates steady. The decision not to move rates took into account China's recent action to devalue its currency, as well as the easing trajectory on which other central banks' rate policies are moving. The stronger U.S. dollar in 2015 is pressuring agricultural and industrial companies to brace for lower sales, especially as China's policy pivots from industrial and real estate development. Export weakness, exacerbated by a stronger dollar, is a negative factor for U.S. growth. The next FOMC meeting is on October 28. Caterpillar, which makes mining and construction machinery, announced layoffs in reaction to slowing global sales. Global commodity demand is declining while supply remains ample. Mining companies have been among the hardest hit, affecting economies from Peru to Australia. Pharmaceutical companies declined sharply as Congress ramps up investigations into drug prices. The drug industry faces additional regulation as drug price inflation is a main driver of healthcare spending. A rotation into Consumer Staples and Utilities during September is a classic move when investors perceive slower growth on the horizon. Major stock indices all exhibited the "death cross" formation, where the 50-day moving average falls below the 200-day moving average. The indicator typically precedes further market losses, though it does not forecast the duration over which those losses occur.

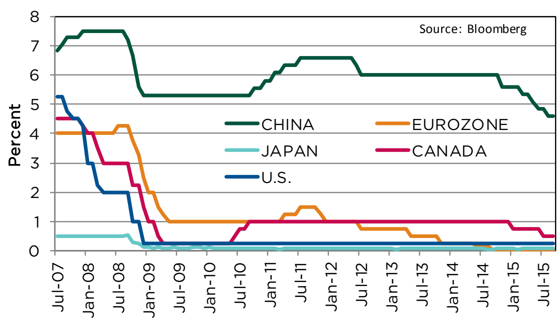
Equity Index Technicals Turn Negative



Inflation Remains Very Low



Central Bank Interest Rates



Market Returns

As of September 30, 2015

	September	3 Months	YTD
S&P 500	-2.5%	-6.4%	-5.3%
Russell 1000 Value	-3.0%	-8.4%	-9.0%
Russell 1000 Growth	-2.5%	-5.3%	-1.5%
Russell 2000	-4.9%	-11.9%	-7.7%
MSCI EAFE	-5.1%	-10.2%	-5.3%
Emerging Markets	-3.0%	-17.9%	-15.5%
Barclays Agg	0.7%	1.2%	1.1%
3-Month T-Bills	0.0%	0.0%	0.0%

With mounting pressure to trim polluting emissions, the electric generation sector has seen many coal plants shuttered in favor of natural gas plants. Consumer electricity prices have risen with mandates for "green" power, including solar and wind, which cost more per kW/h than fossil fuels. Automakers have not been immune to stricter pollution controls, as well as higher fuel mileage requirements. In order to meet fuel mileage requirements, many car companies, including a majority of European car companies, increasingly are selling diesel-engined cars. While inherently more fuel efficient than gasoline-based engines, their particulate output is exponentially higher, necessitating costly pollution control devices. In the past decade, auto companies increased the fuel economy of gasoline engines, while markedly increasing engine power. With the fuel mileage gap closing, diesel engine makers took measures to boost power, while claiming superior fuel mileage. Diesel engines had been difficult to market in the U.S., as diesel fuel is not as widely available as gasoline and Environmental Protection Agency (EPA) pollution regulations are stricter than European regulations.

Volkswagen's (VW) push to grow its U.S. presence was tainted when it became the latest auto manufacturer to admit it circumvented EPA regulations by using software to lower emissions during EPA certification tests. At least 11 million VW vehicles use the software, which improved emission test results by dialing back engine power under test conditions. Under normal driving conditions, the engines released 20x the level of pollutants released during the EPA tests. Owners of Volkswagens with this software saw an immediate decrease in resale value. The company faces tremendous fines for violating regulations. Its stock price fell nearly 30% in two days after the scandal broke, and its CEO was replaced. Unfortunately, Volkswagen is not the first company to manipulate EPA testing protocols, and industry analysts expect that it is not alone in its behavior. Outstanding issues include tax credits that consumers received for purchasing these ultra-low emission cars, which in fact were not ultra-low emitting, and whether Volkswagen will be liable to federal and state governments for any remittances.

The House of Representatives was shaken as Speaker Boehner announced his resignation at the end of October. An impending debt limit battle is on the horizon, and a temporary budget extension will push the confrontation into December. The Treasury has used "extraordinary" measures to fund the federal government, as the reported federal debt outstanding of $18.15 trillion remained unchanged since early March. When the debt ceiling limit is passed, the outstanding debt will immediately jump at least $200 billion as money is returned to federal pools from which it was "borrowed". Uncertainty over passing federal budgetary measures historically has been negative for investors.

High yield bonds lost 2.6% in September, owing to a growing fear of defaults. Energy and industrial bonds were among the worst performing sectors, reflecting diminished cash flows for oil producers and reduced export demand for heavy machinery. Treasury bond prices rose across all durations, as investors seeking safe haven outweighed Chinese government selling.