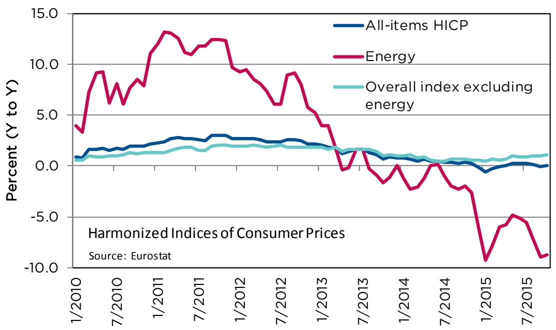
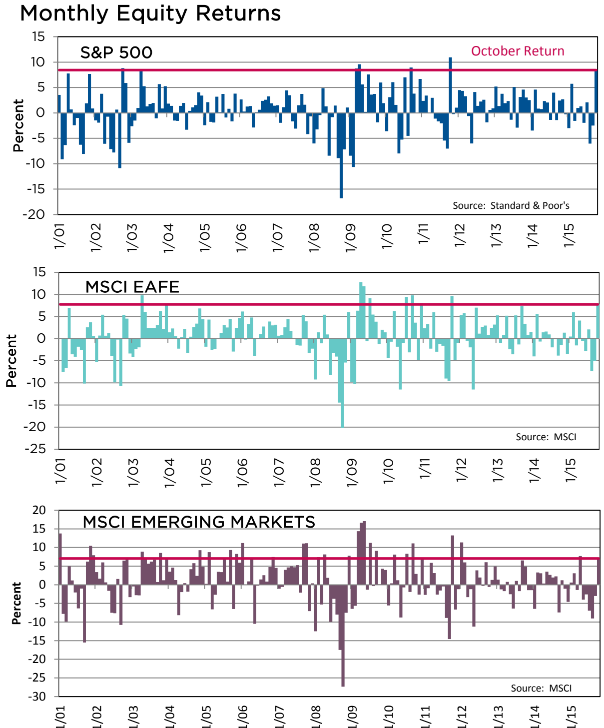
ECONOMIC REVIEW OCTOBER 2015

Central banks provided a boost to equity markets in October, pushing developed market indices to their best monthly performance in four years. The People's Bank of China took steps to boost lending and combat a slowing economy by cutting interest rates and easing banking restrictions. The one-year lending rate was cut 25 bps to a record low 4.35%, and the deposit rate was lowered 25 bps to 1.5%. Additionally, reserve requirements were broadly lowered 50bps, and an additional 50 bps at select institutions. In a nod to further modernizing its banking system, Chinese banks will be allowed to pay higher deposit rates following the elimination of deposit rate caps. Chinese bank deposits have historically paid substantially less interest than the rate of inflation, resulting in a high savings rate as workers anticipate the need for substantial assets to sustain future spending. As deposit rates rise, resulting from competition to boost lendable reserves, Chinese citizens may be able to trim savings and boost current consumption, furthering the goal of China's government to transform the country into a consumer-driven economy. The banking changes precede planning for China's upcoming five-year plan, which is expected to formally push for higher consumer consumption and less capital spending. The European Central Bank added fuel to stock markets' appreciation as it signaled further easing on the horizon. Mario Draghi's statement, "The Governing Council is willing and able to act by using all the instruments available within its mandate if warranted in order to maintain an appropriate degree of monetary accommodation", was all investors needed to sell the euro (down 3.7% in five days following the statement) and further boost stocks. Stubborn weak inflation across the Eurozone was blamed on falling energy prices and weak demand from emerging economies, as well as the glacial pace of structural economic reforms.

Eurozone Inflation



Monthly Equity Returns



Market Returns

As of October 31, 2015

	October	3 Months	YTD
S&P 500	8.4%	-0.6%	2.7%
Russell 1000 Value	7.6%	-1.9%	-2.1%
Russell 1000 Growth	8.6%	-0.5%	6.9%
Russell 2000	5.6%	-5.4%	-2.5%
MSCI EAFE	7.8%	-5.2%	2.1%
Emerging Markets	7.1%	-5.5%	-9.5%
Barclays Agg	0.0%	0.5%	1.1%
3-Month T-Bills	0.0%	0.0%	0.0%

U.S GDP advanced at a 1.5% rate in the third quarter. Consumer spending eased slightly from the previous quarter, with healthcare spending comprising the largest single positive contributor in the segment. Net trade had nearly zero impact during the quarter, as energy prices and currencies remained relatively stable. Imported goods subtracted only 0.09% from overall GDP, compared to the three previous quarters which averaged -0.88%. Weak export growth was a concern and contributed to a strong inventory drawdown, as businesses forecasted a protracted soft period for foreign demand. Inventory change subtracted 1.44% from GDP.

The U.S. House elected Paul Ryan (R-WI) as the new Speaker, replacing retiring Speaker John Boehner. Before stepping down, Boehner pushed through a debt limit extension that would provide borrowing authority through March 2017. In addition, the bill included an easing of sequester terms, which originally were implemented in 2013. Largely effective at limiting federal spending growth, the spending caps were split between defense and domestic discretionary agendas. By allowing an additional $112 billion in federal spending for two years, investors saw the bill as a positive sign. Government spending contributed 0.30% to GDP growth in Q3, with 0.29% from state and local origins. The bump in spending could potentially add over 2% to GDP growth.

Canadian voters decided to move in an entirely different direction with the election of Justin Trudeau, the son of former PM Pierre Trudeau. The Liberal Party trounced the New Democratic Party and Conservative Party, ending PM Harper's nearly 10 year tenure atop the Canadian government. Voters were drawn to the charismatic Trudeau, who pledged to combat scandalous activity in government, raise taxes for corporations and wealthier people and increase tax breaks for lower-income groups.

Merger activity continued as larger corporations announced intentions to combine. InBev, which acquired Anheuser-Busch in 2008, made an offer to acquire SABMiller, maker of Coors and Miller, for $104 billion. Regulators raised concerns about the power the company would wield over local liquor distributors, which could be used to limit shelf space for other brewers, especially smaller independent ones. Beer choice is not necessarily an issue, as the craft beer market has grown exponentially in recent years. Computer maker Dell offered $67 billion to buy EMC Corp., a maker of storage devices. Consolidation across many industries is feeding increased merger activity.

California moved to limit antibiotic use in livestock production, which may reverberate nationwide. Overuse of antibiotics has long been a concern as drug resistant strains have led to dangerous disease outbreaks. The eastern half of Texas went from drought to widespread flooding after Hurricane Patricia's rains were followed by additional storms. The largest oil operations in Texas are in the Permian Basin, located in the largely unaffected western half of the state.