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Market Month: October 2016

The Markets (as of market close October 31, 2016)

Trading in the early part of October saw equities respond negatively to rumors of a pullback on stimulus measures by the European Central Bank, which ultimately proved to be unfounded. Each of the indexes listed here closed the first week of October below their respective September closing values, except for the Global Dow, which eked out a marginal gain. Markets continued their tailspin during the second week of October led by the Global Dow and Nasdaq, each of which lost close to 1.5%.

Stocks rebounded during the third week of the month, posting week-over-week gains by the October 21 market close. Nevertheless, equities fell on the last day of October, closing the month in the red. The Dow fell for the third consecutive month in October, losing almost 1.0%. The S&P 500 lost nearly 2.0% compared to September. But the biggest downturn was posted by the Russell 2000, which plunged about 5.0%. Ultimately, investors may be cautious entering November's presidential election.

U.S. government bond prices fell during October, as the yield on 10-year Treasuries closed up 23 basis points month-over-month. Gold lost value, closing October at \$1,277.80, down \$41 from its September closing value.

Market/Index	2015 Close	Prior Month	As of October 31	Month Change	YTD Change
DJIA	17425.03	18308.15	18142.42	-0.91%	4.12%
NASDAQ	5007.41	5312.00	5189.13	-2.31%	3.63%
S&P 500	2043.94	2168.27	2126.15	-1.94%	4.02%
Russell 2000	1135.89	1251.65	1191.39	-4.81%	4.89%
Global Dow	2336.45	2459.66	2445.57	-0.57%	4.67%
Fed. Funds	0.25%-0.50%	0.25%-0.50%	0.25%-0.50%	0 bps	0 bps
10-year Treasuries	2.26%	1.59%	1.82%	23 bps	-44 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

The Month in Review

- Employment:** The employment sector has not been overwhelmingly strong, but it has been steady throughout much of the year. According to the Bureau of Labor Statistics, there were 156,000 new jobs added in September, up from 151,000 jobs added in August. Thus far this year, job growth has averaged 178,000 per month, compared with an average of 229,000 per month in 2015. The unemployment rate remained relatively the same at 5.0% (4.9% in August). There were 7.9 million unemployed persons. Both the unemployment rate and the number of unemployed persons has changed little since August of last year. The labor force participation rate was 62.9% and the employment/population ratio came in at 59.8%. The average workweek increased by 0.1 hour to 34.4 hours (the workweek in manufacturing was 40.7 hours compared to 33.3 workweek hours for private



Key Dates/Data Releases

11/2: FOMC meeting announcement

11/4: Employment situation, international trade

11/10: Treasury budget

11/15: Retail sales, import and export prices

11/16: Producer Price Index, industrial production

11/17: Consumer Price Index, housing starts

11/22: Existing home sales

11/23: Durable goods orders, new home sales, consumer sentiment

11/25: International trade in goods

11/29: GDP, consumer confidence

11/30: Personal income and outlays

service-providing employees). Average hourly earnings rose by \$0.06 to \$25.79. Over the year, average hourly earnings have risen by 2.6%.

- **FOMC/interest rates:** The FOMC did not meet in October, keeping the federal funds target rate at the 0.25%-0.50% range. However, minutes from its September meeting indicate several Committee members are of the opinion that the time is right for another rate hike — at least by the end of the year.
- **Oil:** The price of crude oil (WTI) fluctuated during October, reaching almost \$52 per barrel, before finally settling at \$46.74 per barrel by the end of the month. The national average retail regular gasoline price was \$2.243 per gallon on October 24, down from the September 26 selling price of \$2.224.
- **GDP/budget:** According to the first advance estimate of the GDP from the Bureau of Economic Analysis, the third-quarter 2016 gross domestic product grew at an annualized rate of 2.9% — exceeding the second-quarter GDP growth rate of 1.4%. The primary positives driving the upward movement of the GDP were exports, which increased at a 10% rate in the third quarter, offsetting a 2.3% increase in imports, which are a negative in the calculation of GDP. Nonresidential (e.g., business) fixed investment increased at a rate of 1.2%, slightly ahead of the prior quarter's 1.0% rate of growth. The third quarter's 2.9% annualized increase is the strongest since the third quarter of 2014. September was the last month of the government's fiscal year. The federal deficit for FY 2016 was \$587.4 billion — about 34% over the FY 2015 budget deficit. For the year, total receipts increased only 0.6%, while expenditures rose 4.5%. For the month, September saw a surplus of \$33.4 billion.
- **Inflation/consumer spending:** Inflationary trends showed some life in September. Personal income (pre-tax earnings) and disposable personal income (income less taxes) each rose 0.3%, while personal spending, as measured by personal consumption expenditures, increased 0.5% for the month. Core personal consumption expenditures (personal spending excluding volatile food and energy costs) rose 0.1% in September, following a 0.2% monthly increase in August. The core PCE index is up 1.7% compared to last year. The price index increased 0.2% for the month, and is up 1.2% year-over-year. The Producer Price Index, which measures the prices companies receive for goods and services, jumped 0.3% in September and is up 0.7% year-over-year — the largest 12-month increase since December 2014. Excluding food, trade services, and energy, prices increased 0.3% for the month, the same as August. For the 12 months ended in September, the index for final demand less foods, energy, and trade services rose 1.5% — the largest increase since climbing 1.5% for the 12 months ended November 2014. The Consumer Price Index, which measures what consumers pay for both goods and services, increased 0.3% in September. Over the last 12 months, the CPI has risen 1.5%. Increases in the shelter (0.4%) and gasoline (5.8%) indexes were the main causes of the rise in the CPI. The index less food and energy increased 0.1% in September after a 0.3% increase in August.
- **Housing:** The housing sector has been a mixed bag for much of the year. Higher home prices and a lack of available homes for sale are keeping the housing market in check. Existing home sales for all housing types increased 3.2% in September to an annual rate of 5.47 million sales, compared to a downwardly revised 5.30 million in August, according to the National Association of Realtors®. Existing home sales are at their highest pace since June (5.57 million) and are 0.6% above a year ago (5.44 million). The median sales price for existing homes in September was \$234,200, down over 2.5% from the price in August, but up 5.6% from September 2015. Total housing inventory at the end of September increased 1.5% to 2.04 million existing homes available for sale, but is 6.8% lower than a year ago (2.19 million) and has declined year-over-year for 16 straight months. The Census Bureau's latest report reveals sales of new single-family homes increased 3.1% in September to an annual rate of 593,000 — up from August's rate of 575,000. The median sales price of new houses sold in September was \$235,000, while the average sales price was \$377,700. The seasonally adjusted estimate of new houses for sale at the end of September was 235,000. This represents a supply of 4.8 months at the current sales rate, which is down from 236,000 homes available (supply of 4.9 months) in August.
- **Manufacturing:** One of the reasons the Fed has held off on raising interest rates is the continued weakness in the manufacturing and industrial production sectors. The Federal Reserve's monthly index of industrial production (which includes factories, mines, and utilities) rose a scant 0.1% in September following a 0.4% drop in August. Manufacturing output increased 0.2% for the month. Industrial production rose at an annual rate of 1.8% for the third quarter, which is its first quarterly increase since the third quarter of 2015. However, compared to last year, industrial production is down 1.0%. At 104.2% of its 2012 average, total industrial production in September was 1.0% lower than its year-earlier level. Capacity utilization for the industrial sector edged up 0.1 percentage point in September to 75.4%, a rate that is 4.6 percentage points below its long-run (1972-2015) average. The advance report from the Census Bureau shows new orders for all durable goods (expected to last at least three years) fell \$0.3 billion, or 0.1%, in September from the prior month. Excluding the volatile transportation segment, new orders increased 0.2%. Orders for capital goods increased \$1.0 billion, or 1.5%, and shipments rose 0.8%.

- **Imports and exports:** In a positive sign for business investment, the advance report on international trade in goods revealed that the trade gap narrowed by about 3.1% in September from August. The overall trade deficit was \$56.10 billion in September, down from \$59.15 billion in August. Exports rose 0.9% to \$125.6 billion, \$1.1 billion more than August exports. Imports dropped 1.1% to \$181.7 billion, \$2.0 billion less than August imports. Rising fuel prices lifted the prices for U.S. imports (goods purchased here but produced abroad) 0.1% in September following a 0.2% decline in August. The prices for exports rose 0.3% following an 0.8% dip the prior month. Year-over-year, import prices are down 1.1% and export prices have fallen 1.5%.
- **International markets:** The European Central Bank didn't expand its stimulus measures, but it didn't retract them either — keeping its policies and benchmark interest rate intact. In the United Kingdom, September's CPI was up 1.0%, which is a two-year high. Following completion of several economic overhauls, Greece is expected to receive an additional round of fresh loans. In China, the GDP expanded 6.7% from a year ago. Retail sales were up almost 11%, while industrial production advanced 6.1%.
- **Consumer sentiment:** Consumers' confidence in the economy gained some momentum in September. The Conference Board Consumer Confidence Index® for September rose 2.3 points to 104.1. The Surveys of Consumers of the University of Michigan Index of Consumer Sentiment expanded from 90.1 in August to 91.2 in September. Both reports show consumers are bullish on future economic gains, but guarded when it comes to present economic conditions.

Eye on the Month Ahead

November should be an interesting month for the economy in general and the stock market in particular. Of course, the big news focuses on the results of the November 8 presidential election. In addition, the FOMC meets in November. While interest rates may be raised by the end of the year, it is not expected to occur until December. Once the dust settles from the election, and presuming interest rates aren't increased in November, equities markets may begin to focus on what's left of earnings season as well as the jobs and inflation data.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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