Hatcher Financial Presents:

MONTHLY ECONOMIC UPDATE

MONTHLY QUOTE

"It's choice – not chance – that determines your destiny."

– Jean Nidetch

MONTHLY TIP

If you are a widow or widower, you become eligible for Social Security survivor benefits beginning at age 60.

MONTHLY RIDDLE

I occasionally run, but I never walk. Everywhere I go, thoughts are close behind me. What am I?

Last month's riddle:
It is a promise, a token, a circle unbroken, and a symbol of love that need not be spoken. What is it?

Last month's answer:
A wedding ring.

November 2015

THE MONTH IN BRIEF

October was the least dramatic month the stock market had seen in some time – no sudden shocks, very little chance of the Federal Reserve raising interest rates, earnings taking center stage. All this was just what the bulls needed. The Dow Jones Industrial Average climbed a spectacular 8.47% during the month, its ascent mirrored by big gains for other benchmarks overseas. Oil and gold posted monthly advances. Housing sector news was mixed and some other key fundamental economic indicators continued to fall short of expectations, but investors seemed largely unperturbed. Even the situation in China seemed less alarming.[1]

DOMESTIC ECONOMIC HEALTH

With October winding down, the Bureau of Economic Analysis released its first assessment of Q3 growth – 1.5%, much removed from the 3.9% growth in Q2. For evidence of this slower economic expansion, all one had to do was refer to certain indicators recently released.[2]

The U.S. manufacturing sector barely grew in September and October: the Institute for Supply Management's factory PMI came in at 50.2 in the ninth month of the year, 50.1 in the tenth (that October mark was a 2-year low). ISM's service sector index weakened 2.1 points in September to 56.9.[3,4]

The Labor Department announced that employers had added just 142,000 new jobs in September, and revised aggregate July and August job gains lower by 59,000. The headline jobless rate remained at 5.1% while the "total" unemployment (U-6) rate declined to 10.0%.[5]

Orders for capital goods tailed off another 1.2% in September (after a 3.0% dip for August). So did factory orders – their 1.0% September descent followed a 2.1% pullback a month before. Industrial output also retreated in September by 0.2%.[2]

Consumer spending is the great engine of the U.S. economy, but that engine was on cruise control in September. The Commerce Department found personal spending up 0.1% in that month with an equivalent gain for personal incomes. Retail sales advanced just 0.1% as well. The two most respected consumer confidence polls went opposite ways in October – the University of Michigan's consumer sentiment index rose 2.8 points to 90.0 in October, while the Conference Board's barometer fell 5.0 points to a score of 97.6.[2]

As expected, the Federal Reserve left interest rates alone in October (although the Federal Open Market Committee's policy statement hinted that a rate move might occur in December). Inflation pressure was certainly not forcing the Fed toward monetary policy normalization – the headline Consumer Price Index sank 0.2% in September, although the core CPI did rise by the same amount. Its sibling, the Producer Price Index, fell 0.5% for October.[2,6]

In late October, Congress passed a new federal budget with some fine print directly impacting seniors and baby boomers. Legislators authorized a 6-month phase-out for the "file-and-suspend" Social Security claiming strategy for married couples, and effectively put a sunset on the "restricted application" claiming tactic that some divorcees had used to pursue greater retirement benefits. The new budget also removed the threat of Medicare Part B premiums rising 52% for some seniors in 2016 – instead, they will now increase by 15% for all Medicare recipients, the result of a $7.5 billion loan Medicare will arrange with the U.S. Treasury. Monthly Part B premiums will rise to $123.00 in 2016.[7]

GLOBAL ECONOMIC HEALTH

Last month, China's National Bureau of Statistics announced 6.9% growth in Q3, surpassing an economic forecast for 6.8% expansion. That marked the poorest three months for China's economy since 2009. There had been only 6.0% manufacturing growth in China this year by the government's estimate, though the service sector had expanded 8.4%. Analysts took the news with more than a few grains of salt. The nation's official factory PMI stayed flat at 49.8 in October, and the Markit/Caixin manufacturing PMI for China came in at 48.3, indicating sector contraction for the eighth straight month. Factory PMIs for other Asian economies varied between good (52.4 for Japan, a 12-month high) and bad (49.1 for South Korea, whose factory sector has not grown since February).[8,9]

The Markit Economics factory PMI for the euro area gained 0.3 points to 52.3 in October, showing expansion for a 28th straight month. Unfortunately, factory PMIs for Spain and Germany respectively touched 22-month and 3-month lows in October. Yearly eurozone consumer inflation was flat in October (compared to -0.1% a month before) with core inflation at 1.0%, while the jobless rate had ticked down to 10.8% in September.[10,11]

WORLD MARKETS

Whereas almost no consequential stock index rose in September, seemingly every one advanced in October. The world leader, so to speak, was Argentina's MERVAL with a gain of 24.37%. Other emerging market indices also rallied – the Dow Jones Americas rose 7.63%, the MSCI Emerging Markets 7.04%, the IPC All-Share 4.70%, the Bovespa 1.26%, the Sensex 1.92%, and the Manila Composite 3.49%.[1,12]

In Europe, the two top continental indices soared. Germany's DAX rose 12.32%, France's CAC-40 9.93%. Impressive gains were common in the region – Italy's FTSE MIB advanced 5.39%, Spain's IBEX 35 8.38%, the U.K.'s FTSE 100 4.94%, and the STOXX Europe 600 7.97%. The Europe Dow rose 8.05% in October.[1]

More gains could be found along the Pacific Rim. The Asia Dow rose 7.75% in October, the Shanghai Composite 10.80%, the S&P/ASX 200 4.34%, the Nikkei 225 9.75%, the S&P/TSX Composite 1.67%, and the Hang Seng 8.60%. As for the Global Dow and the MSCI World, they respectively gained 8.61% and 7.83% for the month.[1,12]

COMMODITIES MARKETS

Sugar again led all commodities in October, with futures advancing 19.56%. Cotton futures were up 5.76%, cocoa futures up 4.46%, wheat futures up 1.71%. October retreats were staged by coffee (0.45%), soybeans (1.12%) and corn (1.67%). WTI crude ended October at a NYMEX price of $46.39 a barrel, the result of a 2.27% monthly gain. While heating oil futures ticked north 0.13% during the month, unleaded gasoline and natural gas futures respectively lost 1.59% and 8.57%.[13]

As for gold, it gained 2.38% on the COMEX – it closed at $1,141.70 on October 30. Silver did better than that, rising 7.38% to a close of $15.54 on the same day. Platinum performed better still, up 9.61%; copper lost 1.39%. Another minor monthly gain occurred for the U.S. Dollar Index, which rose 0.66% in October to 96.92.[13,14]

REAL ESTATE

Mortgages became even more inexpensive as fall began. Between October 1 and October 29, the average interest rate for the 30-year FRM fell 0.09% to 3.76% according to Freddie Mac. In the same interval, average interest rates on the 15-year FRM and the 5/1-year ARM respectively declined 0.09% to 2.98% and 0.02% to 2.89%. Only the 1-year ARM saw average rates tick up (0.01% to 2.54%).[15]

Existing home sales increased. The National Association of Realtors measured a 4.7% September gain, with a 6.1% year-over-year gain in the median home price to $221,900. Speaking of existing home prices, the August S&P/Case-Shiller home price index registered a 4.7% overall annual gain. Contracts to buy existing homes decreased by 2.3% in September, NAR reported. As for new home buying, the Census Bureau announced a 15.2% September dive; the annualized sales pace was the weakest since November 2014. The rate of U.S. homeownership rose 0.3% in Q3 to 63.7%, the first quarterly rise seen in two years.[16,17]

As summer gave way to fall, there was more groundbreaking: the Census Bureau noted a 6.5% September rise in housing starts, although building permits fell 5.0% in the same month.[18]

LOOKING BACK…LOOKING FORWARD

At the closing bell on October 3o, the most-watched U.S. indices stood as follows: DJIA, 17,663.54; Nasdaq, 5,053.75; S&P 500, 2,079.36; Russell 2000, 1,161.86; CBOE VIX, 15.07. On the way to those settlements, the Dow went +8.47% for October, the Nasdaq +9.38%, the S&P +8.30%, and the Russell +5.56%; the VIX dropped 38.49%. Aside from all this, seven other U.S. equity indices posted October gains of more than 10%, most notably the Dow Jones Internet at +14.11% and the PHLX Oil Service at +12.05%.[1]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	-0.90	+2.72	+11.77	+6.92
NASDAQ	+6.71	+10.68	+20.31	+13.84
S&P 500	+0.99	+4.25	+15.15	+7.23
REAL YIELD	10/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.63%	0.42%	0.50%	2.00%

Sources: wsj.com, bigcharts.com, treasury.gov – 10/30/15[1,18,19,20]
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.

November has started fairly well on Wall Street. Some notable M&A activity and earnings surprises have given investors a sense of hope that the market can keep rising through the end of the year; the major indices began the month just a few big rallies away from their record highs. The Federal Reserve's case for raising interest rates in December looks weaker, what with the ISM factory PMI on the tip of contraction and annualized core consumer inflation still only at 1.9%. In short, if November turns out to lack drama in the way October lacked drama, you may see another fine month for equities. Bears might characterize a November rally as an artificial breakout given recent fundamentals, but bullish sentiment seems to be increasing slightly as the holidays approach.[21]

UPCOMING ECONOMIC RELEASES: The roll call of (scheduled) stateside news items for the balance of the month includes the Labor Department's October jobs report (11/6), September wholesale inventories (11/10), October's PPI and retail sales numbers, September business inventories and the preliminary November University of Michigan consumer sentiment index (11/13), the October CPI and October industrial production (11/17), the October FOMC minutes and October housing starts and building permits (11/18), the Conference Board's October index of leading indicators (11/19), October existing home sales (11/23), the second estimate of Q3 GDP, the September S&P/Case-Shiller home price index and the Conference Board's November consumer confidence index (11/24), October new home sales, durable goods orders and consumer spending and the final October consumer sentiment index from the University of Michigan (11/25), and lastly October pending home sales (11/30).

Please feel free to forward this article to family, friends or colleagues.
If you would like us to add them to our distribution list, please reply with their address.
We will contact them first and request their permission to add them to our list.

Citations.

1 - wsj.com/mdc/public/page/2_3023-monthly_gblstkidx.html [10/30/15]
2 - marketwatch.com/economy-politics/calendars/economic [11/3/15]
3 - nasdaq.com/article/us-ism-manufacturing-pmi-falls-to-2-year-low-in-october-cm537785 [11/2/15]
4 - briefing.com/investor/calendars/economic/2015/10/05-09 [10/9/15]
5 - forbes.com/sites/samanthasharf/2015/10/02/jobs-report-u-s-added-142000-jobs-in-september-unemployment-rate-steady-at-5-1/ [10/2/15]
6 - marketwatch.com/story/fed-leaves-rates-unchanged-open-to-hike-at-next-meeting-2015-10-28 [10/28/15]
7 - time.com/money/4089932/medicare-social-security-budget-deal/ [10/30/15]
8 - bloomberg.com/news/articles/2015-10-19/china-s-gdp-growth-beats-forecasts-as-stimulus-supports-spending [10/19/15]
9 - arabnews.com/economy/news/829671 [11/3/15]
10 - nasdaq.com/article/european-equities-close-higher-as-eurozones-manufacturing-sector-expands-cm537708 [11/2/15]
11 - france24.com/en/20151030-eurozone-unemployment-falls-inflation-zero-percent [10/30/15]
12 - msci.com/end-of-day-data-search [10/30/15]
13 - money.cnn.com/data/commodities/ [10/30/15]
14 - marketwatch.com/investing/index/dxy/historical [10/30/15]
15 - freddiemac.com/pmms/archive.html [11/2/15]
16 - cnbc.com/2015/10/22/existing-home-sales-hit-555m-units-in-sept-vs-expectations-of-538m.html [10/22/15]
17 - thefiscaltimes.com/2015/10/29/US-Housing-Gets-Hit-Double-Whammy [10/29/15]
18 - 247wallst.com/housing/2015/10/20/housing-starts-rose-less-than-expected-in-september/ [10/20/15]
19 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=9%2F30%2F14&x=0&y=0 [10/30/15]
19 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=9%2F30%2F14&x=0&y=0 [10/30/15]
19 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=9%2F30%2F14&x=0&y=0 [10/30/15]
19 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=9%2F30%2F10&x=0&y=0 [10/30/15]
19 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=9%2F30%2F10&x=0&y=0 [10/30/15]
19 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=9%2F30%2F10&x=0&y=0 [10/30/15]
19 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=9%2F30%2F05&x=0&y=0 [10/30/15]
19 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=9%2F30%2F05&x=0&y=0 [10/30/15]
19 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=9%2F30%2F05&x=0&y=0 [10/30/15]
20 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldAll [11/3/15]
21 - data.bls.gov/timeseries/CUUR0000SA0L1E?output_view=pct_12mths [11/3/15]