

## THIRD QUARTER REVIEW

OCTOBER 20, 2015

After ten straight quarters of positive returns for the Standard and Poor's 500 Index, domestic equity markets slipped during the third quarter of 2015, though bonds carved out a small gain. China's weakening economy, mixed messages about the domestic interest rate, and a strong dollar all contributed to the downturn. As we go to press, however, those losses have been nearly recovered. Uncertainty due to politics and military activities feeds market volatility. We agree with the late, great Yogi Berra's assessment: "It's tough to make predictions, especially about the future."

### Thoughts from Towneley

In a season of China's increased militarization of the South China Sea, a refugee crisis in Europe, and Russia's increasingly bold excursions into other nations' conflicts, we are reminded that we cannot control the markets or influence the decisions of foreign governments or our own Federal Reserve. *But we can help manage investment risk.* By focusing on low correlation and global diversification, we position your portfolio to weather financial squalls and ride out financial storms.

The reallocations that we completed last quarter remain appropriate in this volatile environment. As always, we are monitoring the interest rate environment along with several other factors both at home and abroad. Our tenure through several market cycles provides a well of experience that we draw from when the ride is bumpy—and we believe it may remain bumpy for a while yet. Your portfolio manager is always ready to answer any questions.

### News from Towneley

- Beginning with this quarter, most of our clients are receiving reports and market commentary electronically through our client portal. If you have not yet arranged access to your portal, please contact Christina Elmore at [celmore@towneley.com](mailto:celmore@towneley.com) or call her at 800.545.4442.
- Christopher "Chris" Gardner has joined the Towneley team as our new portfolio management associate. He earned his degree in financial planning and consulting at Purdue University. His fresh perspective has already made him an invaluable member of our team. Welcome, Chris.
- Fall means different things to different people; here at Towneley it's meeting season. Many of you have scheduled meetings or conference calls during November and December. We look forward to seeing you, and ask that if you have statements or other materials you would like us to review, please provide them in advance of your meeting so we can familiarize ourselves with the information. Our new client portal is a great way to securely transmit that information to us.
- **Institutional clients**, if you experience changes in your revenue or expenses, anticipate a major expenditure, or have questions about your allocation, please contact your portfolio manager right away.
- **Private clients**, if you have questions or experience a change in your circumstances, contact your portfolio manager right away.

## Market Summary

### Domestic Markets

The economy continues to look strong, though the pace of growth is slow. Unemployment has dropped to 5.1%. Consumer spending, which accounts for 68% of gross domestic product, remains strong, stoking an annualized 3.9% increase in GDP during the second quarter. Auto sales are up 5% over the first three quarters of 2015 when compared to the first three quarters of 2014. Housing starts increased in July to an annualized 1.2 million units, the highest number since October of 2007. But corporate profits began to falter after their peak in 2011, and since 2013 the decrease has accelerated, largely due to the strong dollar and softening oil prices.

### International Markets

Quantitative easing (QE) has boosted the European economy and steered it away from deflation since the European Central Bank put it in play earlier this year. During the second quarter, consumer spending increased, raising European GDP to 0.5%. The euro has dipped compared to the dollar, encouraging exports. The year-to-date EAFE return, for example, was -5.3% when measured in dollars, but only -0.9% when measured in local currency.

Emerging markets have been the biggest losers, both in the third quarter at -17.8% and for the year to date at -15.2%. The strengthening dollar has siphoned money out of emerging countries. China's exports, imports, GDP, and consumer consumption have declined. While exports to China account for less than 2% of the GDP of the U.S. or Europe, they play a more central role in the economies of emerging nations—along with oil, another big component of these countries' economies—thus emerging market countries are more affected by China's troubles.

### Fixed Income

The bond market ended the quarter in positive territory, except for TIPS and taxable high-yield issues. U.S. Treasury yields decreased as corporate yields grew, increasing the spread between the two. A widening gap in yields normally indicates market anxiety as investors seek the safety of higher-quality assets. High-yield bonds are more closely correlated to equities, so it is no surprise that they were the worst fixed income performers in the third quarter, at -3.9%.

