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PARTNERS GROUP

The Partners Group Presents:

MONTHLY ECONOMIC UPDATE

November 2011

MONTHLY QUOTE

“The family you come from isn’t as important as the family you’re going to have.”

– *Ring Lardner*

MONTHLY TIP

Do you need several credit cards? Maybe not, especially if you don’t use some of them. Unused credit cards can negatively affect you if you apply for a mortgage or personal loan as lenders look at your “available credit” (used and unused) to decide if you are overextended.

MONTHLY RIDDLE

I went into the woods and got it. I sat down to seek it. I brought it home with me because I couldn’t find it. What is it?

Last month’s riddle:

I’m dressed in a golden jacket. I take it off abruptly, accompanied by a loud noise. When I do, I become larger but

THE MONTH IN BRIEF

In October 2011, stocks had their best month in nearly 20 years. The S&P 500 climbed 10.77% as optimism returned; investors were relieved that Eurozone nations were progressing toward a solution to avert a Greek default. However, the month ended with a political curveball that threatened to sabotage the whole effort. At home, consumer confidence and mortgage rates were at generational lows while consumer spending, auto sales and new home sales held up. Occupy Wall Street gained the world’s attention, as the hazily defined movement may have inspired its first tangible financial change.¹

DOMESTIC ECONOMIC HEALTH

In the month of October, the most reassuring stateside economic indicator was a quarterly one. The initial estimate of 3Q GDP was a 2.5% rise: precisely what economists were forecasting and exactly what was needed to silence arguments that we were on the cusp of a double-dip recession.²

Consumers had become pessimists, but they were still spending enough money to move the economy along. They weren’t happy: the month’s final University of Michigan consumer sentiment survey came in at 60.9, better than the preceding month’s 59.4 but still very low. The Conference Board’s October poll fell to an abysmal 39.8. Yet personal spending had improved by 0.6% in September, even as incomes only rose 0.1% in that month.^{3,4}

At both the mall and the factory, there were still signs of vitality. The latest purchasing manager indexes from the Institute for Supply Management showed mild sector expansion: 50.8 in October for the manufacturing index, 53.0 in September for the service sector index. Retail sales zoomed north 1.1% in September, according to the Commerce Department. U.S. auto sales posted a 7.5% monthly gain in October. Overall durable goods orders retreated 0.8% in September, yet there was a 1.7% gain in hard good orders ex-transportation.^{5,6,7,8,9}

Moderate inflation was also alive and well; the federal government’s Consumer Price Index showed annualized inflation reaching 3.9% in September; annualized core CPI was unchanged from the August reading of 2.0%. The CPI posted a 0.3% monthly gain for September while the Producer Price Index went up 0.8% after a flat August.¹⁰

The jobless rate didn’t move for the third straight month; in September, it remained at 9.1%. On Capitol Hill, President Obama’s American Jobs Act stalled in the Senate and there were indications that the “super committee” of 12 legislators assigned to

weigh less. What am I?

Last month's answer:
A kernel of corn.

craft a deficit reduction plan wasn't making much progress. President Obama used an executive order to speed up implementation of rules intended to ease the debt burden from college loans, and another to broaden the qualifying criteria for HARP, the federal government's underutilized mortgage relief program. The Occupy Wall Street protest spread to other cities; while some of the protesters seemed naïve and poorly informed about the relationship of Main Street to Wall Street, they may have hit one of their targets. Late last month, Bank of America announced it was dropping its proposed \$5 monthly fee on debit card use; other lenders considering debit card usage fees publicly reconsidered them.^{11,12}

GLOBAL ECONOMIC HEALTH

Things were looking so much better in Europe, until one politician made a truly scary announcement on Halloween. Greek prime minister George Paparandou stunned the European Union with his intent to make the latest austerity cuts for Greece contingent on a public vote. On November 2, German Chancellor Angela Merkel and French President Nicolas Sarkozy gave Paparandou an ultimatum: no more money from the EU or the IMF unless Greek voters approve the cuts. One day later, Paparandou scuttled the referendum and faces a potentially grim political future. In late October, key bankers and insurers within the Eurozone agreed to a 50% writedown on their Greek debt holdings; additionally, European finance ministers unveiled a plan to boost bank capital ratios to 9% or better by June and increase the size of the Eurozone bailout fund fourfold.^{13,14,15,35}

So what was going on in Asian economies? Some inflation readings were lower than analysts expected: 4.4% for Indonesia; 4.2% for Thailand; 3.9% for South Korea. India's PMI improved 1.6% in October to 52.0 and its exports surged 36% in the month. On the downside, Taiwan's latest GDP reading was lower than anticipated, and so was China's official PMI, which approached a three-year low last month.¹⁶

WORLD MARKETS

Looking at Morningstar's figures for global indexes (calculated in USD terms), we see some impressive one-month rebounds from September. England's FTSE 100 went +8.11% and the French CAC 40 +8.75%, but that paled in comparison to the German DAX at +11.62% and Hong Kong's Hang Seng at +12.50%. Other nice performances: India's Sensex, +7.60%; Australia's All Ordinaries, +7.13%; the TSX Composite of Canada, +5.40%; the Shanghai Composite of China, +4.62%; Japan's Nikkei 225, +3.31%. The MSCI World Index rose 10.26% last month while the MSCI Emerging Market Index gained 13.08%.^{17,18}

COMMODITIES MARKETS

Metals rebounded in October, as follows: gold, +6.3%; silver, +14.2%; copper, +15.0%; platinum, +5.5%; palladium, +6.0%. Gold ended up +21.3% YTD when October concluded. Oil rose \$13.99 on the month, settling at \$93.19 a barrel on Halloween. The real yield of the 10-year note (already down to 0.17% on September 30) diminished to 0.08% by October 31. The U.S. Dollar Index retreated 3.03% last month.^{19,20,21,22,23}

REAL ESTATE

There was some good news: the Census Bureau reported housing starts up by a whopping 15.0% for September, and it said new home sales improved by 5.7% in that month. The August edition of the S&P/Case-Shiller Home Price Index posted an overall advance for the third month in a row (0.2%), with prices rising in 10 of 20 metro areas and the year-over-year price decline shrinking to just 3.8%.^{24,25,26}

On the downside, the National Association of Realtors said existing home sales fell 3.0% for September, leaving sales on pace for a 2012 total of 4.91 million; this was precisely the same amount of residential resales as 2010, that year being the worst on record for the category since 1997. NAR also said that pending home sales slipped 4.6% in September (economists polled by Bloomberg had forecast a 0.4%

gain).^{27,28}

Mortgage rates went up in October. Freddie Mac's October 27 Primary Mortgage Market Survey showed the average rate on the 30-year FRM at 4.10%, up from the bedrock-low 4.01% on September 29. Other average interest rates moved as follows during that interval: 5/1-year ARMs, from 3.02% to 3.08%; 1-year ARMs, from 2.83% to 2.90%; 15-year FRMs, from 3.28% to 3.38%.²⁹

LOOKING BACK...LOOKING FORWARD

This sterling market month started and ended with sour notes: the Dow's worst trading days of October were October 1 and Halloween. Those notes aside, October was positively amazing for the blue chips. In percentage terms, the DJIA had its finest month since October 2002 (and that was with a 2.26% fall on Halloween). All 30 components advanced; the last month in which that happened was September 2010. Also worth noting: the NASDAQ had its best month since September 2010. Here was the tale of the tape at the end of October.¹

% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+3.26	+9.54	+7.46	+3.17
NASDAQ	+1.19	+11.14	+7.17	+5.88
S&P 500	-0.35	+10.77	+5.82	+1.83
REAL YIELD	10/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.08%	0.49%	2.34%	3.50%

Sources: online.wsj.com, bigcharts.com, treasury.gov - 10/31/11^{1,30,31,32,33}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

This is the time of year many investors look forward to; November often marks the start of the traditional fall-winter "sweet spot" for the market. According to the *Stock Trader's Almanac*, the S&P 500 has advanced in 57% of Novembers since 1928, with an average gain of 0.78%. Not only that, November has been the second-best month of the year for the S&P 500 since 1950. However, the yet-unresolved situation in Europe is hanging over the market like a cloud; Europe is the market mover now and for the near future. The current Greek government may or may not survive a seemingly inevitable confidence vote; Greek PM George Papandreou's recent backtrack on a bailout referendum only adds to the uncertainty. So November proceeds with a caution flag for investors; in the best-case scenario, EU pressure on the Papandreou government and a calming of internal Greek political strife lowers that flag.^{34, 35}

UPCOMING ECONOMIC RELEASES: The rest of November offers the following news items: the October ISM service sector index (11/3), the October unemployment report (11/4), September's wholesale inventories (11/9), the initial University of Michigan November consumer sentiment survey (11/11), the October PPI, October retail sales and September business inventories (11/15), October's CPI and industrial output (11/16), October housing starts and building permits (11/17), the Conference Board's October Leading Economic Indicators index (11/18), October existing home sales (11/21), the latest FOMC minutes and the BEA's second estimate of 3Q growth (11/22), the October consumer spending and durable goods orders reports and the final University of Michigan October consumer sentiment survey (11/23), October new home sales (11/28), the September Case-Shiller home price index and the Conference Board's November consumer confidence snapshot (11/29), and finally the October pending home sales report and a new Beige Book from the Federal Reserve (11/30).

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