



T · H · E

PARTNERS
GROUP

The Partners Group Presents:

MONTHLY ECONOMIC UPDATE

October 2011

MONTHLY QUOTE

“It takes a long time to grow an old friend.”

– *John Leonard*

MONTHLY TIP

Think about setting up a system for 2012 to record your allowable income tax deductions and credits. Too many people spend too many hours trying to figure out deductions and credits in April.

MONTHLY 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 I weigh less. What am I?

Last month's riddle:

Take a 5-letter word identifying a crop. Take away the first letter, and you have a form of energy. Take away the first 2 letters and you have a verb. Rearrange the 3 letters left and you have a drink. What is

THE MONTH IN BRIEF

September 2011 was a difficult time for many investors; the best thing about it may be that it's over. Stocks and commodities were battered during the month - the S&P 500 retreated 7.18% and the Thomson Reuters/Jefferies CRB Commodity Index sank 12.97%. Investor anxiety about the European Union's debt problems increased, and Wall Street was unimpressed by some of the stateside economic statistics. Would stocks struggle for the balance of the year? Had we entered a new recession? Investors could only hope for market performance and economic signals in future months that would put both questions to rest.^{1,2}

DOMESTIC ECONOMIC HEALTH

Consumer spending increased by 0.2% in August, down from a revised 0.7% gain in July. Consumer incomes declined by 0.1% in August for the first time in almost two years. Consumer confidence – which seemingly had nowhere to go but up in light of the July figures – did improve somewhat. The University of Michigan's final September survey rose to 59.4 from the final August 55.7 reading, 1.6 points better than the consensus forecast of economists polled by Bloomberg News; the survey's index of current conditions went up to 74.9 from August's final 68.7 mark. The Conference Board's consumer confidence index edged north 0.2% to 44.7. Consumer prices grew 0.4% in August, with core CPI up 0.2% and 2.0% year-over-year, the biggest annualized core inflation number in almost three years. Producer prices were flat in August, and so were U.S. retail sales. The jobless rate was 9.1% in August – the 25th time in the past 27 months it had been above 9%.^{3,4,5}

The manufacturing and service sectors saw improved growth, at least by the gauge of the most recent Institute for Supply Management manufacturing and service sector indices. ISM's service sector index rose to 53.3 in August from July's 52.7 mark – an improvement few analysts were expecting. Its September manufacturing index rose a full percentage point to 51.6. Durable goods orders diminished in August, but not by much – just 0.1% overall. Core capital goods orders were up 1.1% and core capital goods shipments were up 2.8%.^{6,7,8}

In Washington, there were two big news items. President Obama unveiled the American Jobs Act – a bill that would cut the payroll tax for workers and businesses to 3.1% in 2012, offer tax credits as large as \$4,000 to companies hiring the long-term unemployed, and devote about \$80 billion into infrastructure projects. To pay for it, the President proposed \$1.6 trillion in tax increases for upper-income Americans and corporations as a component of a \$4.4 trillion reduction of the federal deficit by fiscal year 2021. Republicans dismissed any direct link between taxes on the wealthy and future job creation, and it remains to be seen if the AJA will

this 5-letter word?

Last month's answer:
Wheat.

pass in anything like its entirety.^{9,10}

GLOBAL ECONOMIC HEALTH

Fears of sovereign contagion grew on rumors that Greece would soon default on its debt. At mid-month, European finance ministers and central bank governors (and even Treasury Secretary Timothy Geithner) conferred to try and figure out the least disruptive resolution to the crisis. The G-20 issued a statement promising a “strong and coordinated international response to address the renewed challenges facing the global economy”. That aside, both the Federal Reserve Open Market Committee and International Monetary Fund managing director Christine LaGarde saw appreciable “downside risks” for the U.S. and world economies.¹¹

When investors weren't worried about Greek banks going belly-up or Greece ditching the euro for the drachma, they had concerns about China. Its central bank was trying to arrange a soft landing for its slowing economy. Data showed China's consumer prices up 6.2% in August from a year earlier; the People's Bank of China has raised interest rates five times in the last 12 months. China's official PMI improved a bit to 51.2 in September, but looking long-term, 59% of analysts and traders recently surveyed in Bloomberg's Global Poll of Investors think that its economy will see growth of less than 5% by 2016. Meanwhile, key PMIs in Australia (42.3) and India (50.4) went lower.^{12,13}

WORLD MARKETS

Losses abounded. Data from Morningstar tells the tale, with all of this measured in U.S. dollar terms. India's Sensex lost but 1.34% last month. The Nikkei 225 only lost 2.85%; Germany's DAX retreated 4.89% and England's FTSE 100 lost 4.93%. Now the greater descents: All Ordinaries, -6.86%; CAC 40, -8.44%; Hang Seng, -14.33%; TSX Composite, -8.97%; Shanghai Composite, -8.11%. After September, all of these indices were in the red by 10% or more YTD. The biggest loser among them? The DAX, -23.99% YTD. The MSCI World and Emerging Market indices respectively lost 8.85% and 14.78% in September.^{14,15}

COMMODITIES MARKETS

The U.S. Dollar Index rose 6.0% in September. That alone might tell you what kind of month it was. Gold lost 11.38% last month. Other precious metals also saw major selloffs last month – platinum, -17.9%; palladium, 22.3%; silver, 28.0%. Oil futures slipped 10.82% in September. At month's end, the price of COMEX gold was \$1620.40 per ounce; NYMEX crude settled at \$79.20 a barrel. The 19-commodity Thomson Reuters-Jefferies CRB Index posted a 12.97% loss on the month, and just three crops in the 24-commodity Standard & Poor's GSCI Total Return Index of raw materials advanced – live cattle (+7.6%), feeder cattle (+7.7%) and lean hogs (+5.9%). The real yield of the 10-year note was but 0.17% on September 30, hardly changed from the 0.18% yield on August 31.^{2,16,17,18,19,20}

REAL ESTATE

The housing market appeared healthier than a year ago. Perhaps that isn't saying much, but the progress was tangible. Existing home sales improved 7.7% in August, putting them + 18.6% from a year earlier. There were 3.2% more housing starts in August, and that indicator registered 7.8% annual improvement. August data also showed 12-month gains in new home sales (6.1%) and pending home sales (7.7%). The S&P/Case-Shiller Home Price Index rose again in July (0.9%); the index was still 4.1% below July 2010 levels.^{21,22,23,24,25}

How low could mortgage rates go? In September, the short answer was “even lower”. Homeowners who could manage a refi were looking at a 3.28% average rate for the 15-year fixed on September 29 according to Freddie Mac's Primary Mortgage Market Survey. That was down from 3.39% on September 1. The average rate on the 30-year FRM was a milestone 4.01% on September 29; it had been 4.22% on September 1. In the same interval, the average rates on the 5/1-year ARM actually rose to 3.02%

from 2.96%; rates on the 1-year ARM went from 2.89% to 2.83%.²⁶

LOOKING BACK...LOOKING FORWARD

Appetite for risk truly waned in September, a month in which the dollar seemingly beat every asset class.

% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	-5.74	-6.03	+1.16	+2.35
NASDAQ	-8.95	-6.36	+1.97	+6.32
S&P 500	-10.04	-7.18	-0.86	+0.89
REAL YIELD	9/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.17%	0.75%	2.27%	3.50%

Sources: cnbc.com, bigcharts.com, treasury.gov - 9/30/11^{1,27,28,29,30}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

Uncertainty defines the market at this point. Could this next earnings season be powerful enough to send stocks north in October? Could anything divert enough attention from the risks in Europe? (Don't forget the pressure from a stronger dollar.) This is a market given to rapid sentiment shifts, and its present level of volatility might be with us for months. If it is any encouragement, October has been a decent month for Wall Street since 2000; in fact, it has been the DJIA's fifth-best month of the year since then with an average monthly performance of +1.16%.³¹

UPCOMING ECONOMIC RELEASES: Here's what we have for the rest of October: the August ISM service sector PMI (10/5), the September jobs report and a report on August wholesale inventories (10/7), the initial University of Michigan October consumer sentiment survey, September retail sales figures and August business inventories (10/14), September industrial output (10/17), the September PPI (10/18), the September CPI, a new Fed Beige Book and data on September housing starts and building permits (10/19), September's existing home sales and the Conference Board's September Leading Economic Indicators index (10/20), the August Case-Shiller home price index and the Conference Board's October consumer confidence poll (10/25), September new home sales and durable goods orders (10/26), the initial BEA estimate of 3Q GDP and September's pending home sales (10/27), and then September consumer spending and the final University of Michigan October consumer sentiment survey (10/28).

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.

Securities and Advisory Services offered through Geneos Wealth Management, Inc. Member FINRA/SIPC Advisory Services offered through TPG Financial Advisors, LLC, A Registered Investment Advisory Firm

This material was prepared and written by MarketingLibrary.Net Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. BSE Sensex or Bombay Stock Exchange Sensitivity Index is a value-weighted index composed of 30 stocks that started January 1, 1986. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The S&P/ASX All Ordinaries Index represents the 500 largest companies in the Australian equities market. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The Hang Seng Index is a

freefloat-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. The S&P GSCI (formerly the Goldman Sachs Commodity Index) serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. It is a tradable index that is readily available to market participants of the Chicago Mercantile Exchange. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance data is historical and not indicative of future results. Market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

Citations.

- 1 - cnbc.com/id/44729786 [9/30/11]
 - 2 - bloomberg.com/apps/quote?ticker=CRY:IND [9/30/11]
 - 3 - businessweek.com/news/2011-09-30/consumer-sentiment-in-u-s-increases-more-than-forecast.html [9/30/11]
 - 4 - businessweek.com/ap/financialnews/D9PP5NB00.htm [9/15/11]
 - 5 - nytimes.com/2011/09/15/business/economy/retail-sales-and-producer-prices-unchanged-in-august.html [9/14/11]
 - 6 - bloomberg.com/news/2011-09-06/u-s-ism-services-index-increased-in-august.html [9/6/11]
 - 7 - ism.ws/ISMReport/MfgROB.cfm [10/3/11]
 - 8 - marketwatch.com/story/us-durable-goods-orders-drop-01-in-august-2011-09-28?reflink=MW_news_stmp [9/28/11]
 - 9 - money.msn.com/business-news/article.aspx?feed=AP&date=20110909&id=14243169 [9/9/11]
 - 10 - usatoday.com/news/washington/story/2011-09-19/Obama-deficit-reduction-plan/50470916/1 [9/19/11]
 - 11 - sfgate.com/cgi-bin/article.cgi?f=/g/a/2011/09/22/bloomberg_articlesLRXZ2L0D9L35.DTL [9/22/11]
 - 12 - businessweek.com/news/2011-10-03/asian-economies-weaken-as-european-crisis-crushes-confidence.html [10/3/11]
 - 13 - businessweek.com/news/2011-10-03/china-s-expansion-in-services-may-ease-slowdown-concerns.html [10/3/11]
 - 14 - news.morningstar.com/index/indexreturn.html [9/30/11]
 - 15 - mscibarra.com/products/indices/international_equity_indices/gimi/stdindex/performance.html [9/30/11]
 - 16 - blogs.wsj.com/marketbeat/2011/09/30/data-points-energy-metals-525/ [9/30/11]
 - 17 - bullionpricetoday.com/bullion-prices-mixed-in-third-quarter-2011/ [9/30/11]
 - 18 - online.wsj.com/mdc/public/npage/2_3051.html?mod=mdc_curr_dtabnk&symb=DXY [10/3/11]
 - 19 - bloomberg.com/news/2011-10-02/dollar-beating-all-assets-in-september-undermines-s-p-downgrade.html [10/2/11]
 - 20 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldYear&year=2011 [10/3/11]
 - 21 - realtor.org/press_room/news_releases/2011/09/ehs_aug [9/21/11]
 - 22 - census.gov/const/newresconst.pdf/ [9/20/11]
 - 23 - census.gov/const/newressales.pdf [9/26/11]
 - 24 - realtor.org/press_room/news_releases/2011/09/phs_august [9/29/11]
 - 25 - articles.latimes.com/2011/sep/28/business/la-fi-home-prices-20110928 [9/28/11]
 - 26 - freddiemac.com/pmms/ [10/3/11]
 - 27 - montoyaregistry.com/Financial-Market.aspx?financial-market=an-introduction-to-the-stock-market&category=29 [10/3/11]
 - 28 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=9%2F30%2F10&x=0&y=0 [9/30/11]
 - 28 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=9%2F30F2%2F10&x=10&y=18 [9/30/11]
 - 28 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=9%2F30%2F10&x=0&y=0 [9/30/11]
 - 28 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=10%2F1%2F01&x=0&y=0 [9/30/11]
 - 28 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=10%2F1%2F01&x=0&y=0 [9/30/11]
 - 28 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=10%2F1%2F01&x=0&y=0 [9/30/11]
 - 29 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldAll [10/5/11]
 - 30 - treasurydirect.gov/instit/annceresult/press/preanre/2001/ofm71101.pdf [7/11/01]
 - 31 - cnbc.com/id/44758022 [10/3/11]
-