VANTAGE CONSULTING GROUP
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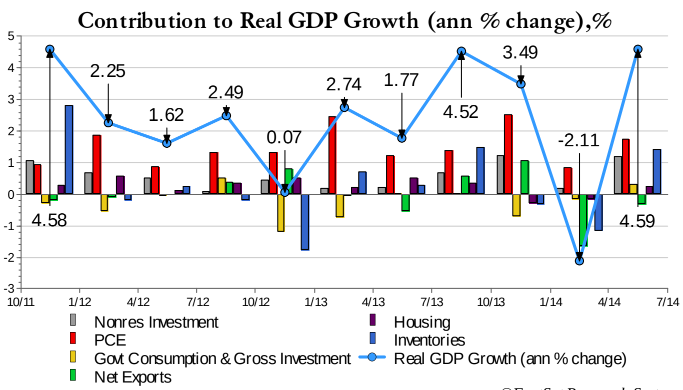
Market Review

September 2014

Economic Review

U.S. real GDP for 2Q2014 grew at a strong +4.6% rate, up about 0.5% from the prior estimate, according to the third estimate of the Bureau of Economic Analysis. Real GDP declined 2.1% during the first quarter. This upturn in real GDP primarily reflected increases in exports and private inventory investment, accelerations in nonresidential fixed investment, personal consumption expenditure, upticks in state and local government spending, and in residential fixed investment that were partly offset by an acceleration in imports. Third quarter GDP growth is estimated to be between 3.0% and 3.5%.



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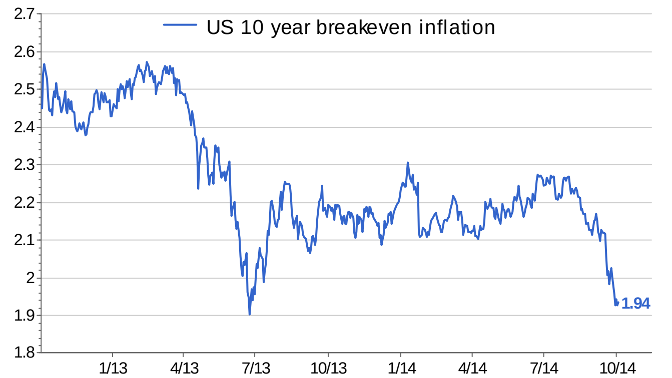
Total nonfarm payroll employment increased 142,000 as employers hired fewer workers in August, and the unemployment rate was little changed at 6.1%. The average monthly gain in payrolls was 212,000 over the last twelve months. The civilian labor force participation rate fell 0.1% to 62.8% in August while the employment-population ratio remained at 59% for the third consecutive month. The average workweek was 34.5 hours for the sixth consecutive month. Average hourly earnings rose by 6 cents to $24.53 in August and have risen +2.1% over the year.

U.S. regional and national manufacturing data continued to indicate strength in the economy. The ISM Manufacturing Index increased to a three and half year high of 59.0% in August, up from 57.1% in July. The new orders subcomponent increased to 66.7%, the highest since April 2004. The ISM Non-Manufacturing index rose to nine year high of 59.6%, surpassing July's 58.7% as overall business activity picked up. The employment sub-component increased to 57.1 from 56, though the new orders component eased to 63.8 from 64.9. A value above 50 indicates expansion.

The headline Consumer Price Index (CPI) decreased -0.2% month-over-month (m/m) in August (+0.1% in July) and increased +1.7% year-over-year (y/y). Energy was the weakest component of the index. Core CPI remained unchanged m/m, also increasing +1.7% y/y. Breakeven measures of inflation dropped sharply in September. The 10-year Breakeven rate dropped 17 bps to 1.94%. The 5 year/5year forward breakeven inflation rate declined 12 bps to 2.16%.



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September housing data was less encouraging than expected. Existing home sales fell 1.8% to 5.05 million units at an annualized rate (a.r.), well below the 5.2 million expected. At the current sales rate, there is a 5.5 months' supply for existing homes on the market. Housing sales fell to a 956,000 a.r. in August following a 1.12 million pace the prior month. Building permits fell 5.6% m/m during August. New home sales, on the other hand, increased 18.0% m/m to 504,000 a.r. leaving a supply of 4.8 months at the current pace.

The Federal Open Market Committee (FOMC) decided to taper its current bond-buying program by another $10 billion in September. In her statement, Federal Reserve Chair Janet Yellen reiterated that the Fed will likely maintain a 0% to 0.25% target range for the overnight Fed Funds rate for a considerable time due to low inflation. The Fed still expects the current asset purchase program to end at its next meeting. The FOMC meets again on October 28th/29th.

Economic data for Europe released in September were poor. Eurostat's estimate for second-quarter GDP growth was 0.0% quarter-over-quarter, which matched estimates. Private investments and inventories were detractors from GDP growth, while consumption and exports were positive contributors. The Purchasing Managers' Index (PMI) for the Eurozone fell to 52.3, the lowest level in 2014, from 52.5 in August. The Eurozone is also experiencing a disconnect between realized inflation and future expectations; the annual inflation rate for the Eurozone fell to 0.3% while the

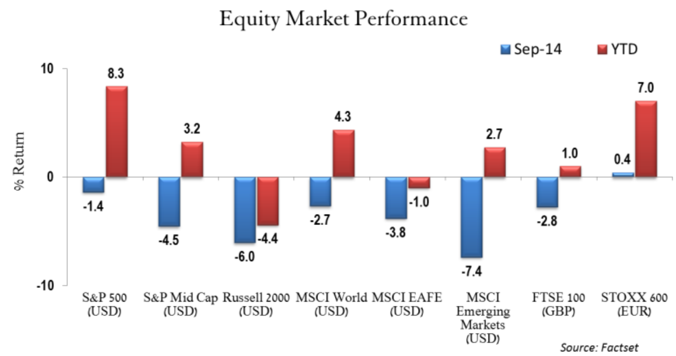
Eurozone Future Inflation Gauge rose to a 28-month high. In response to deteriorating economic conditions, European Central Bank (ECB) President Mario Draghi announced a 10 bps rate cut along with asset purchases designed to stimulate the economy. The ECB will expand its balance sheet by purchasing securitized loans and covered bonds.

In the United Kingdom, economic data continued to be positive. Second quarter GDP growth was revised up to 3.2% year-over-year, fueled by a significant upward revision in construction spending. In addition, the estimate for the UK recession was revised to a peak-to-trough drop of -6.0% from -7.2%. Inflation in the United Kingdom fell to 1.5% from 1.6% in August, as food and energy prices declined. Core CPI, which excludes food, energy, alcohol, and tobacco costs, rose at a rate of 1.9% last month. Though inflation has fallen, prices are still outpacing wage growth, which rose 0.6% y/y in September.

In Asia, Japan's economy contracted at an annualized rate of 7.1% in the second quarter, the largest contraction since the first quarter of 2009. The final revision showed that second-quarter consumption and business spending dropped by 5.1%. Even though some contraction was expected after the implementation of a higher sales tax, Japanese officials remained concerned about the sustainability of the recovery in future quarters. Japanese industrial production fell 1.5% in August, which was significantly below forecasts of a 0.2% gain. In China, softening economic data fueled increased concerns about a further slowdown in the world's second-largest economy. Chinese inflation hit a four-month low of 2% in August from 2.3% in July, and factory output grew at the weakest pace in nearly six years.

Equity Markets

Most global equity indices fell in September, as disappointing European growth, Chinese slowdown concerns and geopolitical stressors weighed on investors. The MSCI World Index lost -2.7% and is up 4.3% in 2014. Domestic large cap stocks, as measured by the S&P 500, fell -1.4% in September despite an upward revision to U.S. second-quarter GDP. Domestic mid-cap stocks, as measured by the S&P 400 declined -4.5% while the Russell 2000 small-cap index lost -6.0%. The Russell 2000 is down -4.4% in 2014 after gaining 38.8% in 2013. The headline indices for Europe (STOXX 600) and the U.K. (FTSE 100) returned 0.4% and -2.8%, respectively. The MSCI Emerging Markets Index posted a -7.4% return in September, and is once again lagging most developed-market indices for the year.



The S&P 500 traded choppily through the first two weeks of September and had posted a modest gain for the month through September 18. The index then fell on six of the last eight trading days in September to deliver losses for the second month in the last three. The Russell 2000 small-cap index was consistently in the red, and recorded losses greater than 1% on seven days in September. Market volatility, as measured by the CBOE Market Volatility Index (VIX), was higher for most of the month, closing at 16.31. Volatility of European stocks, measured by the Euro Stoxx 50 VIX, finished September modestly lower at 17.85 after closing August at 18.8.

Bond Markets

Almost all asset classes were hurt in September as risk premiums widened with macroeconomic and geopolitical monetary policy concerns outweighing decent U.S. economic data and any positive effect from talk by the ECB of additional stimulus. The U.S. Bond market, as measured by the Barclays U.S. Aggregate Index declined -0.7% last month and is up +4.1% for the year. New issuance of corporate bonds and the decline in equity markets contributed to corporate bond spreads widening in September. According to the Barclays Option Adjusted Spread (what credit quality) index, credit spreads widened 10 bps, the worst monthly performance of the year. The WHAT spread is 4 bps tighter for the year.

The 30-year U.S. Treasury bond yields widened 12 basis points to close at 3.21% while the 10-year U.S. Treasury bond yield increased 16 bps to close at 2.51% last month. The UK 10-year benchmark gilt yield rose 17 bps to close at 2.42%. The yield on German 10-year benchmark bonds were flat in September.

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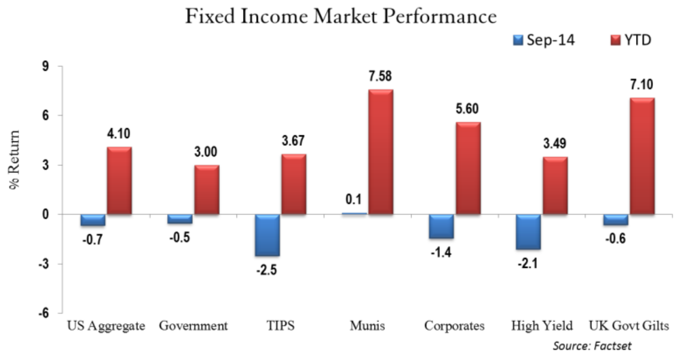
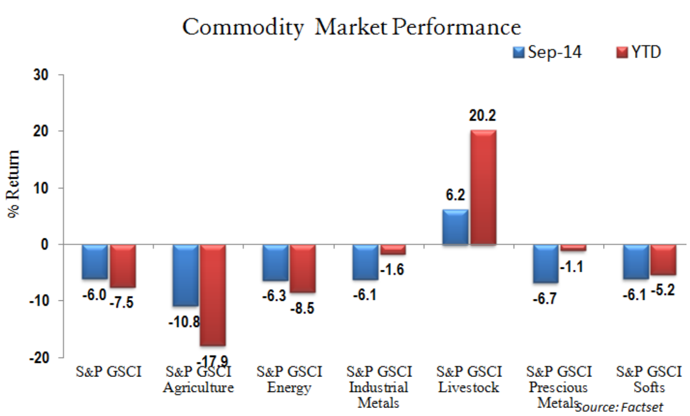


Commodities

The S&P GSCI Total Return Index, a headline index of 24 commodities, fell -6.0% in September, and is now down -7.5% in 2014. The Agricultural Index continued its slide since April, losing -10.8% in September to add to heavy losses in 2014. Corn [-12.1%], Soybeans [-10.8%], Wheat [-15.2%], and Sugar [-8.3%]. all posted substantial losses in September. The Livestock sub-index rallied 6.2%, the only headline sub-index to finish the month in positive territory. Livestock reversed August's losses, bringing year-to-date gains to 20.2%. The sub-index was led by gains in Cattle, as Feeder Cattle rallied 9.3% and Live Cattle gained 6.3%.

The Energy sub-index continued to decline in September, posting a 6.3% loss despite airstrikes by a U.S. led coalition against the Islamic State of Iraq and the Levant (ISIL) in parts of northern Iraq and northeastern Syria. The downside pressure on energy has been caused by increased supply, as the U.S. reported a 362.3 million barrel stockpile in mid-September, which was substantially above estimates. Crude Oil ended August at $95.84/bbl, and traded down most of the month, closing September at $91.32/bbl.



After closing at $105.51/bbl in June, Crude Oil has declined by over $14/bbl, and net long positions on Brent Crude futures declined by 34% for the week ending September 23, which was the largest decline in three years.

Currency

The US Dollar continued to rally against a basket of peers in September on hawkish bias, and uncertainty around the European economic recovery. The US Dollar index appreciated 3.86% in September.

The Euro continued to trend downward amid speculation of further monetary easing by the ECB. The Euro declined -4.1% against the US Dollar to close at 1.2633 USD/EUR, the weakest level in two years. The British Pound depreciated -2.38% against the US Dollar in July to close at 1.6211.