VANTAGE CONSULTING GROUP
3500 PACIFIC AVENUE VIRGINIA BEACH, VA 23451 (757) 491-1200 FAX (757) 422-5378

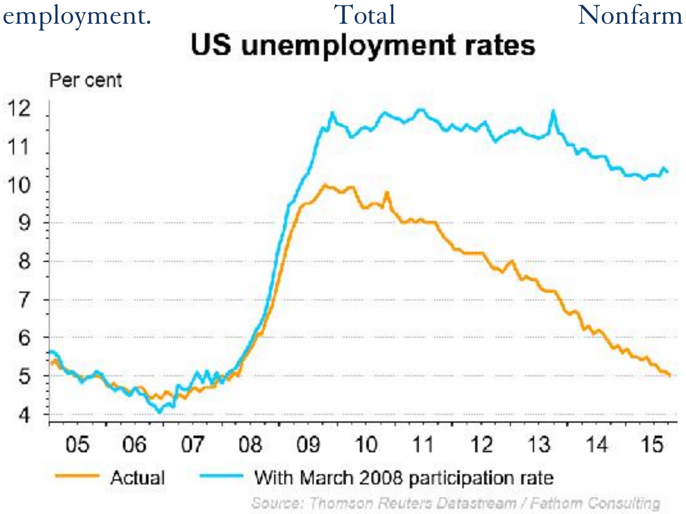
Market Review

November 2015

Economic Review

Economic data released during November was mostly weaker than expected with the exception of October's jobs report. US third quarter GDP growth was revised higher from 1.5% to a 2.1% annual rate. The higher growth rate was primarily due to a smaller than previously estimated inventory adjustment. The revised GDP figure was in line with economists' expectations. Fourth quarter economic growth is expected to be between 2.0% and 2.5%.

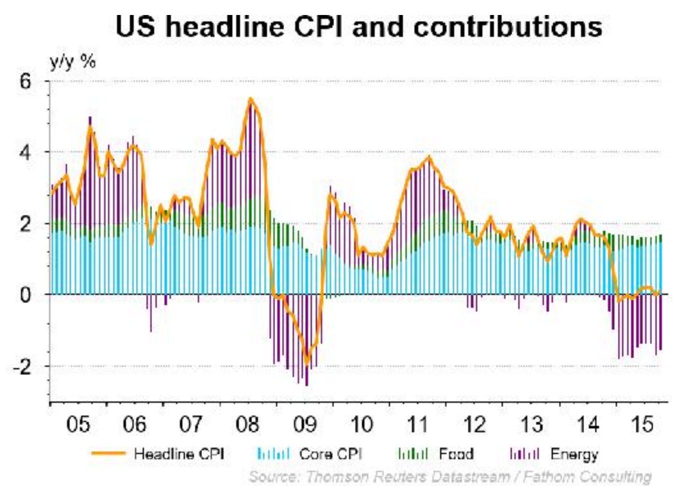
The unemployment rate in the US fell to 5.0%, the lowest level since April 2008, according to the Bureau of Labor Statistics. The unemployment rate has decreased by 0.7% over the past twelve months. The civilian labor-force-participation-rate was unchanged at a 38-year low of 62.4% in October, following a decline of 0.2% in September. If the participation rate was held constant at the March 2008 level of 66.1%, the current unemployment would be 10.3%, highlighting the impact of the declining participation rate on employment. Total Nonfarm



Payrolls increased 271,000 during October, the largest rise since December 2014 and have averaged 230,000 per month for the prior twelve months. The average workweek for all employees on private nonfarm payrolls remained at 34.5 hours in October while average hourly earnings rose by nine cents to $25.20.

Consumer confidence, retails sales, personal spending, wholesale prices, industrial production and several manufacturing reports were all weaker than expected. Housing data were mixed. Existing home sales and housing starts declined while building permits and house prices increased.

Inflation data continues to be generally soft in the US. Headline CPI increased 0.2% m/m and 0.2% y/y in October on a seasonally adjusted basis. Headline inflation is expected to rise in the coming months due to base effects as last year's large m/m declines in energy prices (see chart below) move out of the twelve-month window. Core CPI rose 0.2% m/m and 1.9% y/y in the most recent report. The Core CPI y/y rate has been supported by stronger shelter and medical costs. Breakeven measures of inflation increased last month; ten-year break-even inflation implied by the Treasury market rose nine bps to 1.62%.



The October Federal Open Market Committee meeting minutes confirmed the committee plans to 'initiate the normalization process at the next meeting' unless there were 'unanticipated shocks'. Subsequent speeches and statements from FOMC speakers continued to hint at a rate hike in December. The Fed Funds futures market currently (Dec 4th) implies a 79.1% probability of a rate hike at the December 16 meeting.

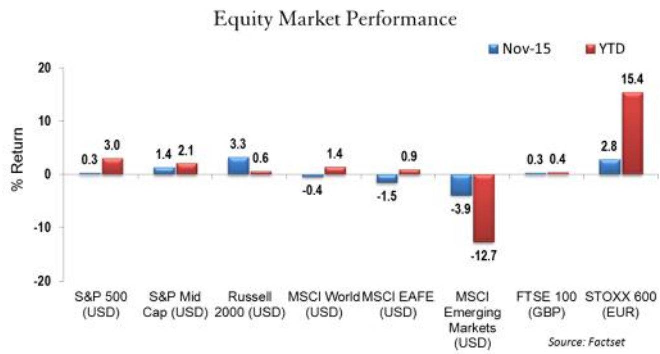
In Europe, business activity grew at the fastest pace in nearly five years, as the Eurozone PMI hit 54.4 in November, up from 53.9 the previous month. The index has been above the 50 mark, which separates expansion from contraction, since July 2013. Industrial Production, however, fell 0.4% month-over-month in September, compared with a 0.5% rise in the previous month. Inflation data in the Eurozone for October were revised slightly higher, Headline inflation rose from 0% to 0.1%, while core inflation, which strips out food and energy prices, was revised higher to 1.1%, the highest level since August 2013. European Central Bank (ECB) President Mario Draghi pledged to combat persistent weakness in Eurozone inflation, and hinted that additional stimulus measures could be unveiled at the bank's next meeting in early December. The ECB has bought 60 billion Euros per month of bonds since March in an effort to revive inflation with little impact so far. The measures unveiled by the ECB in early December, consisting of an extension of the current program and a small cut in the deposit rate to -0.3%, were more modest than anticipated by market participants.

In the UK, the Office of National Statistics' (ONS) estimate of October inflation was unchanged at -0.1%; the Retail Prices Index fell to 0.7% in October from 0.8% in September. The 0.7% reading in Retail Prices was the lowest rate since November 2009. As in Europe and the US, inflation data in the UK have been impacted by falling oil prices; the core inflation rate in October was 1.1%. Still, many economists forecast that the continued inflation readings below 2% have relieved pressure on the Bank of England (BOE) to raise interest rates. The Bank of England has forecast that a short-term dis-inflationary cycle will benefit the UK consumer. Wages in the UK grew at an annual rate of 2.5% in the September period.

In Japan, the economy slipped into its fourth recession in five years, as real GDP growth for the third quarter came in at -0.8%. Economists had expected a 0.2% contraction for the third quarter, but additional weakness in business investment and inventories weighed on growth. In China, the International Monetary Fund (IMF) added the Chinese renminbi to the list of global reserve currencies. The renminbi joins the US Dollar, the Euro, the Pound, and the Yen as the only global currencies with this designation. This increased status for Beijing comes as the country faces additional pressures on growth including weakening exports, industrial output, and investment.

Equity Markets

Global equity markets were broadly flat in November, with the MSCI World Index returning -0.4%. US large cap stocks, as measured by the S&P 500, gained 0.3% in November, and are now up 3.0% for the year. US mid-cap stocks, as measured by the S&P 400 returned 1.4% while the Russell 2000 small-cap index finished the month up 3.3%. The headline indices for Europe (STOXX 600) and the UK (FTSE 100) returned 2.8% and 0.3%. The MSCI Emerging Markets index continues to lag developed markets, –falling 3.9% in November and 12.7% for the year-to-date. At the sector level, Financials led the market higher with gains of 1.9%. Utilities lagged the market once again in November, returning -2.1% for the month, as bond yields rose. Retail stocks underperformed the market after a series of disappointing earnings from bellwethers Macy's (M) and Nordstrom (JWN); the SPDR S&P Retail ETF (XRT) posted a -2.88% return in November.



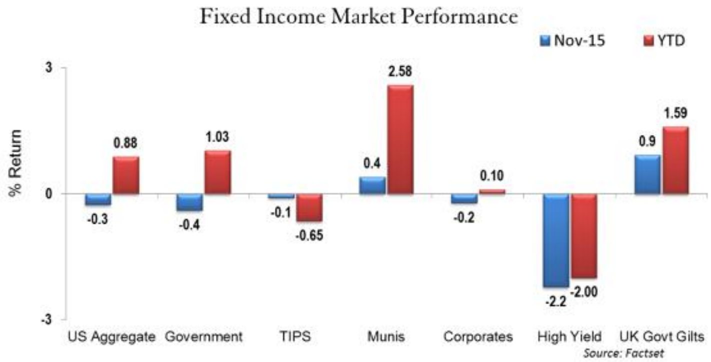
The S&P 500 index was quiet during the month, with only a two-day period of stress caused by Fed-watching, falling oil prices, and a rising dollar. Market volatility, as measured by the CBOE Market Volatility Index (VIX), rose slightly in November, closing at 16.13, down from October's close of 15.07. The VIX reached as high as 20 during the month, but the spike proved temporary. The volatility of European stocks, as measured by the Euro Stoxx 50 VIX Index, finished November higher, closing the month at 23.65 after ending October at 20.36, though the index spiked to nearly 26 in the middle of the month.

Bond Markets

Movements in bond markets of US and Europe during November reflected the expected monetary policy divergence. Expectations of hike by the FOMC in December drove the two-year US Treasury yields to five-year highs in November. Short-term rates rose steadily throughout the month while long-term rates, which rose earlier in the month, reversed course amidst heighted tensions in the Middle East and terrorist attacks in France. The two year - thirty-year Treasury curve flattened by approximately 15 basis points.

VANTAGE CONSULTING GROUP
3500 PACIFIC AVENUE VIRGINIA BEACH, VA 23451 (757) 491-1200 FAX (757) 422-5378

ECB president Draghi's rhetoric diverged from the FOMC. Draghi appears to be preparing markets for lower (more negative) rates in an effort to help stimulate inflation expectations and weaken the Euro. In response, the German two-year benchmark yield declined 8 bps to negative 42 bps during the month while the ten-year benchmark yield declined five bps to 47 bps. The two-year yield has been near or below zero since the summer of 2012. The thirty-year benchmark yield increased eight bps to close November at 1.33%. The UK two-year benchmark yield was nearly flat while the ten and thirty-year benchmark yields fell about eight bps to close at 1.83% and 2.53% respectively.

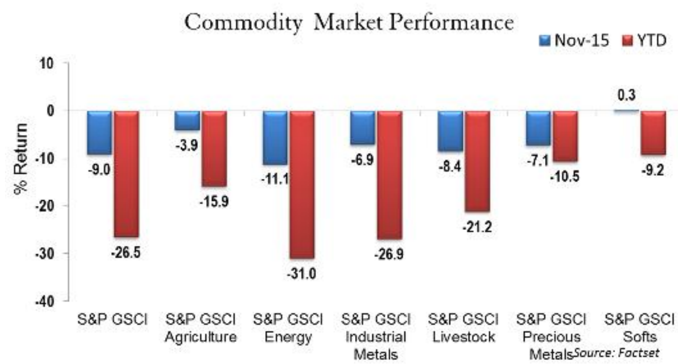


Commodities

The S&P GSCI Total Return Index, a headline index of 24 commodities, returned -9.0% in November. The index has fallen 26.5% in 2015, led lower by large declines in energy related commodities. Each of the major sub-indices is in negative territory for the year, with the best performing sub-index (Softs) down 9.2% in 2015. The Softs sub-index was the strongest performer for the second straight month in November, gaining 0.3% for the month. The sub-index was led higher by Sugar [+2.8%], as next year's global consumption is expected to exceed the yearly harvest and disruptive weather in Brazil, the world's largest sugar producer, threatened to disrupt the harvest season, impacting supply.

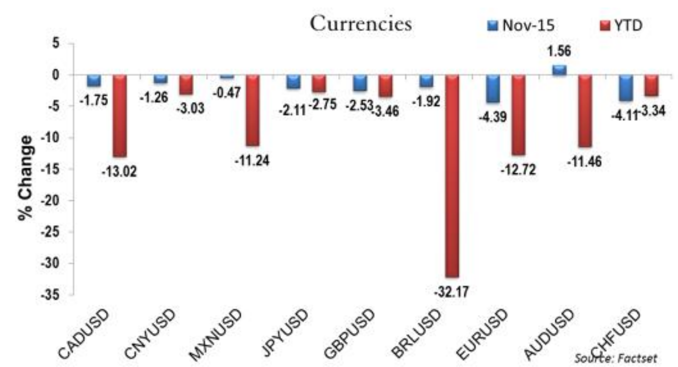
The Energy sub-index fell 11.1% in November and has now returned -31% in 2015. The Energy sub-index was dragged lower by Crude Oil [-15.3%], which fell on increasing inventory levels. The International Energy Agency (IEA) reported a three billion barrel global stockpile, while the US Energy Information Administration (EIA) reported commercial crude inventories of 488.2 million barrels, an 80 year high. West-Texas Crude Oil opened the month at $46.59/bbl. and traded down sharply through the first weeks of November, closing the month substantially lower at $41.74/bbl. Refining margins expanded slightly in November, as Crude Oil underperformed Gasoline [-3.6%], Gasoil [-8.3%], and Heating Oil [-11.9%].

The Precious Metals sub-index returned -7.1% in November, as looming tightening of monetary policy by the Federal Reserve pushed investors away from Gold [-6.7%] and Silver [-9.8%]. Gold opened November at $1,141.40 and traded down throughout the month to close at $1,065.30.



Currencies

Diverging global monetary policies helped the US Dollar appreciate yet again during the month. The US Dollar Index gained 3.28% in November and has gained 11% so far this year.



The Euro fell 4.4% against the US Dollar last month driven by ECB President Draghi's dovish language. The Euro closed November at 1.05615 USD/EUR from 1.10465 USD/EUR during the prior month. The GBP depreciated 2.53% to close the month at 1.5053 USD/GBP from previous month's close of 1.5444 USD/GBP.