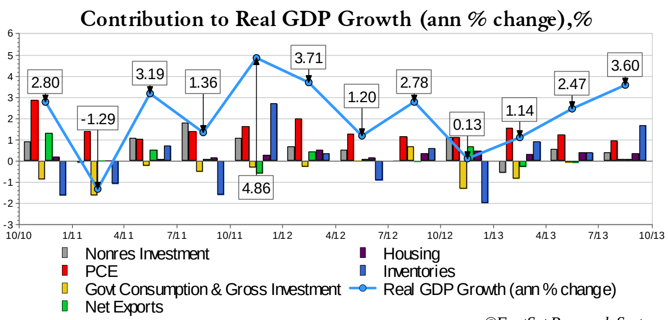
VANTAGE CONSULTING GROUP
3500 PACIFIC AVENUE VIRGINIA BEACH, VA 23451 (757) 491-1200 FAX (757) 422-5378

Market Review

November 2013

Economic Review

U.S. real GDP was revised to a 3.6% annual pace during the third quarter, higher than the preliminary reading of 2.8% and above economists' estimates of 3.2%. This is the fastest pace since the first quarter of 2012. The increase in the latest estimate was almost entirely due to further growth in private inventory investment, which was much larger than previously estimated. Real final sales grew 1.9% in the third quarter and consumer spending rose 1.4%, both rates of growth slowed from the prior quarter.



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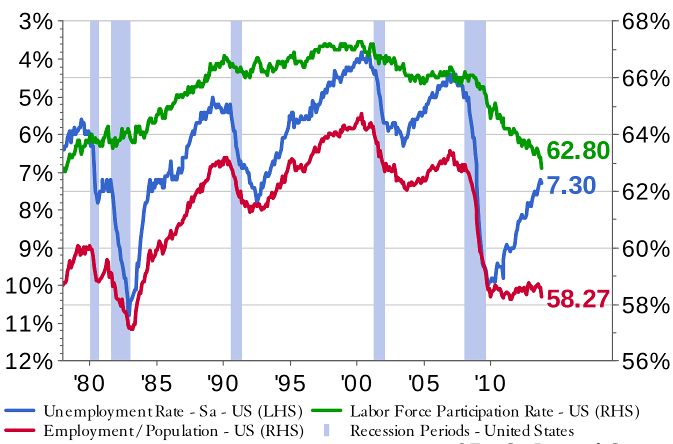
Nonfarm payroll grew by 204,000 during October. Payroll data for August and September were revised upwards by 60,000 jobs. The U.S. unemployment rate ticked up to 7.3% in October, however, as the number of unemployed persons increased over the month due to the temporary layoffs. The U-6 underemployment rate rose to 13.8%. The employment to population ratio declined to a new two-year low of 58.3%. The labor force participation rate fell to a three-decade low of 62.8%. Average hourly earnings rose 0.1% sequentially and 2.2% year-over-year. Average weekly hours worked fell to 34.4.



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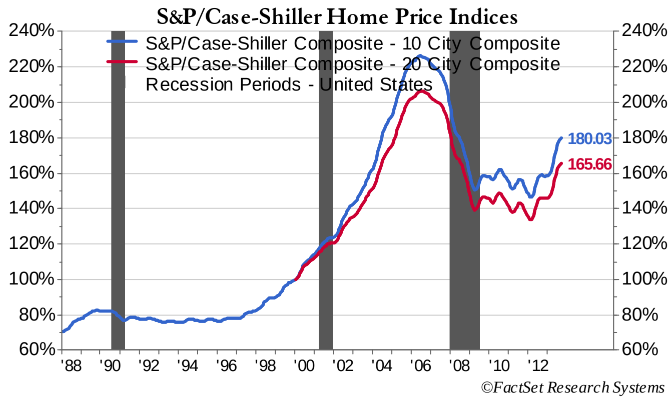
The U.S. Trade Deficit in September grew to $41.8 billion from a revised $38.7 billion in August according to the Commerce Department. Imports increased 1.2% during the month, while exports declined 0.2%. Industrial production slipped 0.1% in October. Durable goods orders fell -2% after two straight months of increases. The decline was largely due to weak aircraft orders. The index declined a -0.1% after excluding the volatile transportation orders. Durable goods orders have expanded 4.9% over the past 12 months. Retail spending climbed 0.4%, more than the 0.1% expected by analysts. Autos, electronics and clothing posted strong monthly gains. Core retail sales (excluding automobiles and gasoline) increased 0.2%. Retail sales have increased 3.9% over the last 12 months.

The Consumer Confidence Index fell to a seven-month low on concerns about hiring and wages in coming months, according to the Conference Board. The Index dropped to 70.4 in November, from 72.4 in October. The decline was primarily due to weakening of the expectations component of the index. Lower confidence going into the shopping season could weigh on economic growth, as consumer spending accounts for over two-thirds of economic activity. Personal Incomes were up 0.5% in September, beating the 0.3% consensus forecast. Personal Spending edged up to 0.2%, slightly below the 0.3% expectation.

The headline Consumer Price Index decreased 0.1% in October, driven by lower energy prices after a 0.2% gain the prior month. Consumer Prices increased 1.0% during the twelve months ending in October, lower than the 1.2% year-over-year gain the prior month. The core CPI Index, which excludes food and energy, rose 0.1% in October, less than the anticipated 0.2% increase. Year-over-year CPI rose 1.7%. The 5 year/5 year forward breakeven inflation rate remained at 2.4%.

Housing data continues to indicate a slow rebound. The S&P/Shiller 20-City Composite Index increased 13.3% year-over-year in September, the fastest pace since early 2006. Building permits rose 6.2% in October, reaching their highest level in five years. The reading showed 1.034 million annualized permits, up from September's 974,000 and above the consensus estimate of 930,000. Multi-family units continued to be the main driver of growth in building permits. However, pending home sales continued to disappoint, as they declined for the fifth consecutive month, falling 0.6% during October. Higher mortgage rates, limited supply of houses, and uncertainty around the government shutdown caused fewer Americans to buy existing homes. Sales of previously owned homes declined for the second consecutive month, recording -3.2% in October. Sales declined in all the four regions with the West declining -7.1% from September.



The Senate Banking Committee approved Janet Yellen, the current Vice Chairman of the Federal Reserve System, to replace Ben Bernanke when the Fed Chairman's term expires on January 31, 2014. During her appearance in front of the Banking Committee, Ms. Yellen reiterated her support for the Fed's accommodative monetary policy, including quantitative easing. She also said, "There are costs and risks associated with the program. We are monitoring those very carefully… The committee is focused on a variety of risks and recognizes that the longer this program continues, the more we will need to worry about those risks". The Federal Open Market Committee (FOMC) October minutes indicated that officials may keep short-term interest rates near zero for a longer period than previously thought.

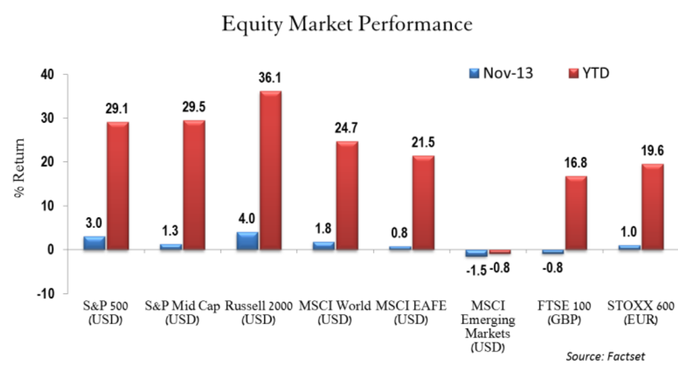
Eurozone real GDP remained weak, slowing to 0.4% annualized rate (a.r.) in the third quarter, compared to a 1.2% a.r. in the second quarter. Germany's real GDP expanded at an annualized rate of 1.2%. Unemployment in the Eurozone fell by 0.1% in September to 12.1%, but remains close to the recent high. More than 50% of Spain's youth is unemployed according to official figures. Consumer prices in the euro region climbed to 0.9% from November a year ago, more than the estimate of 0.8%. Earlier in the month, the European Central Bank provided further accommodative monetary policy by lowering its key interest rate by 25 bps (to a record low of 0.25%) after inflation slowed to 0.7% in October. The ECB indicated concerns over the Eurozone's slow growth and cited risks including "the prolonged period of low inflation". The Bank of England kept interest rates on hold. S&P downgraded France's sovereign credit rating to AA from AA+ and the Netherlands' rating was downgraded to AA+.

Elsewhere, Brazil's central bank raised its key interest rate by 50 bps to 10%, as its government budget deficit as percentage of GDP expanded to its widest in five years. Annual inflation has stayed above Brazil central bank's target for over three years primarily due to spending by the government. The Reserve Bank of Australia left the key interest rates unchanged.

Equity Markets

Equity markets rallied to yet another record high in November as investors reacted positively to expectations of continued easy monetary policy and better than expected economic data. The S&P 500 gained 3.05% in November and is up 29.1% for 2013. The FTSE 100 returned -0.83% (in GBP) and has gained 16.8% for the year. The STOXX 600 Index added 1.03% (in EUR) in November bringing year-to-date gains to 19.6%.

The S&P 500 and Dow Jones Industrial average reached historical highs by mid-November on Yellen's dovish testimony and disappointing initial unemployment claims and larger than expected trade deficit. Stocks continued to rally for the rest of the month as S&P 500 broke through the 1800 level on the premise that economic growth was improving but not fast enough to encourage the Central bank to slow down the pace of accommodative monetary policy.



Bond Markets

The U.S. Bond market, as measured by Barclays U.S. Aggregate, declined 0.4% in November. Credit spreads, measured by Barclays option adjusted spread on the full credit index, narrowed by 6 bps to its tightest month end level of 2013 at 120. The rally in credit index was broad based with the exception of the Sovereign component which expanded by 14 bps. The yield on the 30-year Treasury approached its highest level of the year, set in August, before declining in the month end.

Economic data and its impact on the Fed's monetary policy continue to move U.S. fixed income markets. U.S.

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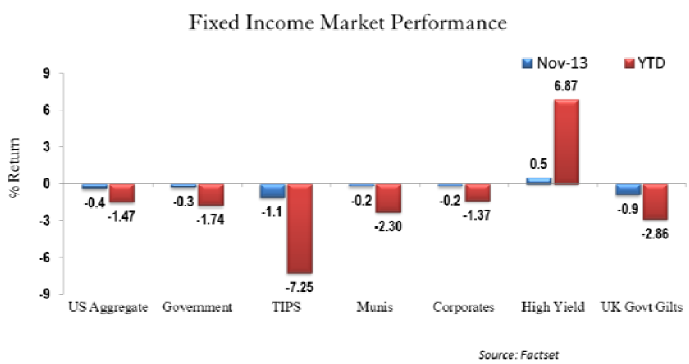
Treasuries sold off sharply early in the month after a stronger than expected U.S. GDP report raised expectations that the Fed may curtail its asset purchases as soon as December. Treasuries recovered some of their losses in the following days on relatively weak economic data and dovish Congressional testimony of Janet Yellen. The yield curve then steepened following the release of the FOMC's minutes, as longer-dated Treasuries sold off while short-term Treasury yields fell in response to indications that the Fed will keep short-term interest rates near zero for an even longer time. Treasury yields remained flat towards the end of the month, as mixed economic data did nothing to clarify the timing of tapering.



Yields on the 10-year and 30-year U.S. Treasury bonds increased 19 bps and 17.4 bps, respectively. The 10-year bond closed at 2.74% and the 30-year bond closed at 3.81%. The yield on German 10-year benchmark bonds remained nearly flat, ending November at 1.69%. The yield on UK 10-year benchmark bonds increased 15 bps to close at 2.60%.

Commodities

Slower growth in China continued to weigh on commodity prices in November. S&P GSCI Total Return Index of 24 commodities fell -0.76% during the month and continues to lag stocks and bonds for the year. The Index is down -3.09% since the beginning of the year.

Precious Metals and Industrials led the decline last month. Precious Metals dropped 6% in November, bringing year-to-date losses to 27%. Gold and Silver dropped in price, driven predominantly by expectations of a strong US Dollar. Silver retreated the most, falling 8.6% last month and has now lost 34.5% for the year. Gold slumped 5.6% to $1250.4 an ounce and has declined 25.8% for the year. Investors have been net sellers of gold, in part because they do not need gold as a hedge in the absence of inflation. Among the Industrial Metals, Nickel, Aluminum and Zinc fell 7.7%, 6.5% and 4% respectively on abundant supply.

Crude Oil continued its multi-month decline, ending November at the lowest level in six months. Natural Gas, the best performing commodity in November, rallied 8.82% to a five-month high on colder than expected weather in the U.S. coupled with lower inventory data.

Currency

The US Dollar Index, a measure of the Dollar against six trading partners, rose 0.6% in November. The US Dollar strengthened versus the Euro after the ECB cut its benchmark interest rate, but then steadily lost ground as the month progressed. The Dollar Index closed at 80.68, up 1.15% for the year.

The 17-nation Euro rose for a third straight month, gaining 0.15% vs. the US Dollar. Japan's Yen fell 4.2% as Japanese consumer prices climbed the most in 15 years. The British Pound appreciated 1.96% against the greenback and gained against all 16 most traded counterparts.

Amongst emerging economies, the Indonesian Rupiah declined the most, sliding 5.8% against the Dollar amid concerns that the current account deficit will leave the country vulnerable to investment outflows. Brazil's Real slumped 4.7% amid concern of a credit-rating cut due to nation's fiscal deterioration.