VANTAGE CONSULTING GROUP
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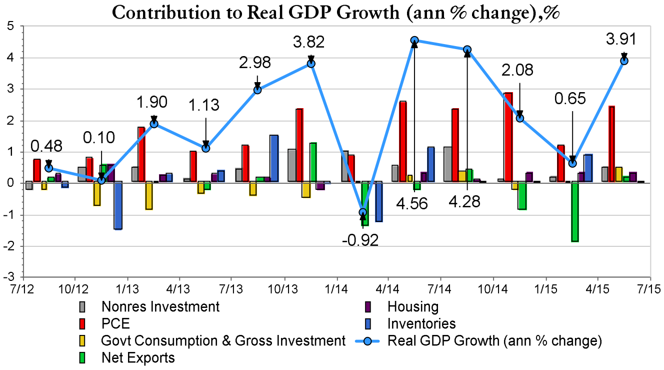
Market Review

September 2015

Economic Review

US real GDP expanded at an annual rate of 3.9% in the second quarter according to the third estimate released by the Bureau of Economic Analysis. This is a 0.2% increase over the prior estimate of 3.7%, driven primarily by an upward revision in Personal Consumption Expenditures (from 3.1% to 3.6%). Real GDP increased 2.7% year-over- year (YoY).

Contribution to Real GDP Growth (ann % change),%



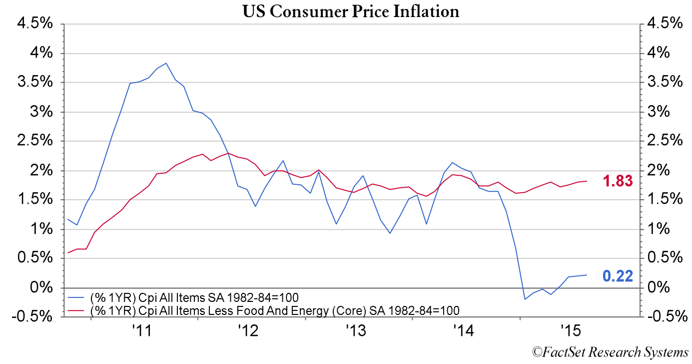
Nonfarm payroll increased by 173,000 in August and the unemployment rate edged down to 5.1%, according to the US Bureau of Labor Statistics. Payroll data for the prior two months were revised upward by 44,000. Employment growth has averaged 247,000 per month over the prior 12 months. Total employment is up 12.6 million from the recession low. The labor-force-participation-rate remains near a four-decade low at 62.6%. The employment-population ratio increased to 59.4%. The average hourly earnings for all employees on private nonfarm payrolls rose by 8 cents to 25.09, following a 6-cent gain in July. Hourly earnings have risen by 2.2% over the year.

Retail sales were up 0.2% from July to August and up 2.2% for the year. The ISM Manufacturing Index came in at 51.1 in August, down from 52.7 in July, suggesting a slower expansion. The employment index subcomponent was at 51.2, while the new orders index was at 51.6. The ISM Non-Manufacturing Index declined to 59.0, down from 60.3 in July (figures above 50 indicates expansion, below 50 indicates contraction).

The housing recovery remains tepid. Existing home sales fell 4.8% month-over-month (MoM) to a seasonally adjusted annual rate (saar) of 5.31 million in August from a slight downward revision of 5.58 million in July. Total housing inventory rose 1.3% to 2.29 million existing homes available for sale (5.2 months supply at current sales price). Sales of newly built homes fared better than existing home sales. New home sales rose by 5.7% to a 552,000 (saar) vs. an expectation of 515,000. Compared to a decade ago, the current annual volume of new home sales is only one third the prior decade's level. Housing starts decreased by 3.0% MoM to an annualized rate of 1.13 million during August. Building permits declined 3% to an annualized rate of 1.17 million.

Key measures of inflation continue to indicate a low inflation environment. Monthly headline inflation fell 0.1% while CPI, less food and energy, rose 0.1% in August. According to the Cleveland Fed, the median CPI rose 0.2% while the trimmed-mean CPI rose 0.1% in August. The median CPI and 16% trimmed-mean CPI are measures of core inflation.

US Consumer Price Inflation



The FOMC left the rates untouched during its mid-September meeting. The committee noted that, "recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term." Chairwoman Yellen's press conference following the meeting was considered dovish by investors. The Fed funds rate has been held in the 0%-0.25% range since December 2008. The Fed Funds futures market implies a less than five percent probability (as of October 6th) of a hike at the next meeting beginning on October 28th.

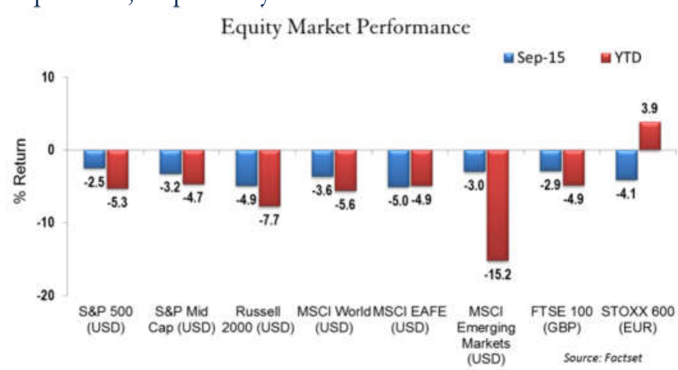
Eurostat revised second quarter Eurozone GDP growth to 0.4%, up from the previous estimate of 0.3%. The Eurozone has grown 1.5% year-over-year (YoY), the fastest growth rate in four years, up from 1.2% in the previous quarter. Eurostat's flash estimate of September inflation in was -0.1% on a year-over-year basis, as falling energy prices dragged down the consumer price index. The core inflation rate, which strips out food and energy prices, was up 1.0%, unchanged from the previous month on a year-over-year basis. Unemployment in the Eurozone ticked higher to 11% in August after registering a multi-year low of 10.9% in the previous month. Of the countries in the Eurozone, Germany continues to have the lowest unemployment rate [6.4%], while Greece has the highest rate [25.2%]. Persistently high youth unemployment continues to be a problem in the region, and the youth unemployment rate rose slightly to 22.3% in August. Estimates of youth unemployment in Italy, Greece, and Spain are over 40%.

In the UK, the Office of National Statistics' (ONS) estimated that the unemployment rate was 5.5%, unchanged from the previous quarter but lower than the 6.2% rate in the previous year's period. Wage growth, after slowing in June, regained strength in July. Wages rose 2.9% year-over-year in July, compared with a 2.4% rise in the previous month. Inflation in the UK was flat in August, down from July's 0.1% reading, and the core inflation rate fell slightly to 1.0% from 1.2% in the previous month. The Bank of England (BOE) said it intends to begin normalizing interest rates in the first quarter of 2016 despite inflation readings below the central bank's 2% target. BOE policymakers voted 8-1 in September to keep rates unchanged, citing increased risk due to a slowing Chinese economy.

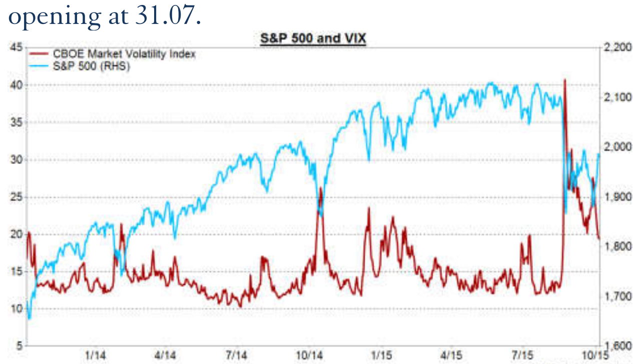
In Asia, the revised estimate of second quarter GDP growth in Japan showed a 1.2% contraction in the world's third largest economy. Economists expected a 1.8% contraction, as Japan continues to deal with regional weakness brought on by a slowdown in China. The Chinese economy continues to slowdown despite five interest rate cuts by the People's Bank of China (PBOC), lower reserve requirements for banks, and extraordinary intervention into the country's equity markets. China's exports fell 5.5% in August, measured year-over-year, after falling over 8% in July. Weakness in Chinese exports has been broad based, with orders from the US, Europe, Japan, and other Asian trading partners all weaker than expected. Chinese industrial production also continues to weaken; the National Bureau of Statistics said August's industrial production grew at 6.1% against a 6.6% forecast from economists. The Chinese government has responded to the continued weakness with further stimulus measures, including a restructuring of municipal debt in an effort to make funds available for infrastructure spending.

Equity Markets

Global equity markets continued to fall in September, with the MSCI World Index returning -3.6%. Domestic large cap stocks, as measured by the S&P 500, fell -2.5% in September, and are now down -5.3% in 2015. Domestic mid-cap stocks, as measured by the S&P 400 returned -3.2% and the Russell 2000 small-cap index finished the month down -4.9%. The headline indices for Europe (STOXX 600) and the UK (FTSE 100) returned -4.1% and -2.9%, respectively. The MSCI Emerging Markets index lost -3.0% in September, and is now down -15.2% in 2015. At the sector level, Materials and Energy led the market lower with losses of -7.4% and -6.7%, respectively. Healthcare stocks continued to perform weakly, as the sector returned -5.7% in September, led lower by losses in Biotechnology stocks. Traditionally defensive sectors Utilities and Consumer Staples were the strongest performing sectors with gains of 2.9% and 0.5% in September, respectively.



The S&P 500 was roughly flat for the month before losing over 5% in seven trading sessions near the end of the month. Market volatility, as measured by the CBOE Market Volatility Index (VIX), fell slightly in September, closing at 24.50, down from August's close of 28.43. The VIX reached an intra-day high of 33.82 on September 1, but then fell sharply over the next few days. The volatility of European stocks, as measured by the Euro Stoxx 50 VIX Index, finished September slightly higher, closing the month at 32.05 after opening at 31.07.



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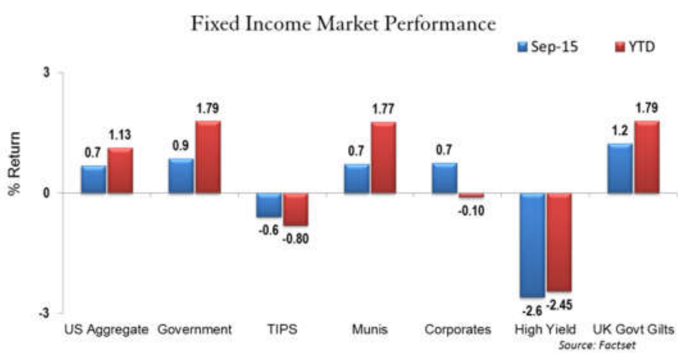
Bond Markets

The slowdown in Chinese growth, weakness in commodity markets and the Fed's decision to delay the US rate hike were the key market themes in September. Credit spreads continued to widen as the Option Adjusted Spread on the Barclays Credit Index closed at 160bps. Petrobras, the Brazilian oil company, and a large issuer in the Barclays Credit Index, was downgraded to high yield. High yield spreads widened 92 bps as yields closed at 8.08% resulting in a 2.6% decline during September. Issuance of new corporate bonds remained heavy, but a late month pick up in volatility seemed to dampened supply.

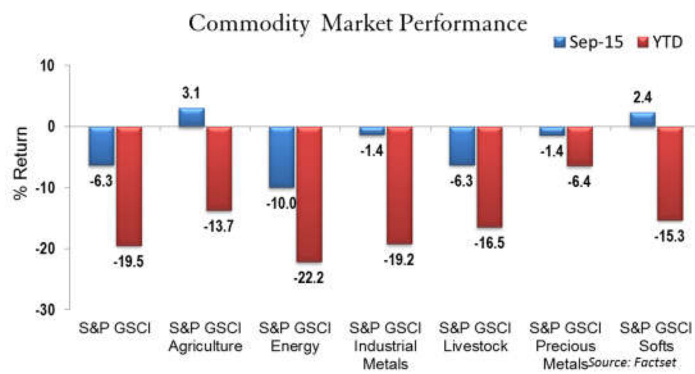


The yield on the 10-year US Treasury bond declined 14 bps to close September at 2.06%. The yield on the 30-year US Treasury bond dipped 5 bps to close at 2.88%. The UK 10-year benchmark gilt yield declined 19 bps, to close at 1.66%. The 30Y/2Y yield curve remained flat. The yield on German 10-year benchmark bonds declined 15 bps to 0.59% at the end of September. The 30Y/2Y yield curve flattened 6 bps.

Commodities

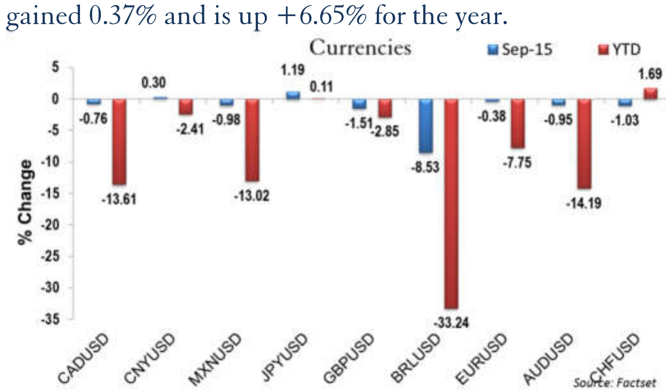
The S&P GSCI Total Return Index, a headline index of 24 commodities fell -6.3% in September. The index has returned -19.5% in 2015, driven primarily by wild swings in energy and industrial metals. The only sub-indices to finish the month in positive territory were Agriculture and Softs, which returned 3.1% and 2.4% in September, respectively. The Agricultural sub-index has returned -13.7% year-to-date, led lower by large losses in Coffee [-32.5%], Sugar [-19.5%], and Wheat [-14.6%].

The Energy sub-index fell -10% in September, as energy related commodities continued to decline sharply after a brief pause in August. West-Texas Crude Oil opened the month at $49.20/bbl. and traded straight down throughout the month, closing September at $45.09/bbl. Brent Crude, the global benchmark for oil, traded similarly to WTI throughout the month, closing September at $49.05, significantly lower than August's $55.80 close.



Currencies

The US Dollar strengthened modestly versus a basket of major currencies during September. The US Dollar Index gained 0.37% and is up +6.65% for the year.



The Euro weakened 0.4% against the US Dollar to close at 1.1163 USD/EUR in September. The British Pound has weakened against the US Dollar for the third consecutive month. The pound sterling weakened -1.5% in September to close at 1.515 USD/GBP.