



MARKET COMMENTARY

Volatility was widespread in October, as oil realized sharp declines, the U.S. ended its quantitative easing program, global bond yields fell on deflation concerns, and Ebola caused a global health scare. These macro events led to dispersion amongst asset classes, with U.S. equities generally coming out on top. All sectors of the S&P 500 except for energy posted positive results and small caps rebounded strongly from summer weakness, while global equities continued to suffer from low growth in Europe. Bonds experienced abnormal volatility as credit markets experienced selling pressure early in the month caused by outflows from a large fixed income complex (Pimco) and de-leveraging hedge funds.

MARKET NEWS

- Earnings: with 74.6% of the market cap of the S&P 500 having reported, S&P operating earnings are on track to be a record \$29.49 for the quarter, representing 9.6% YOY growth and another high in profit margins at 6.4% (J.P. Morgan)
- On October 15th, the yield on the 10yr U.S. Treasury briefly dipped below 2%, as traders reacted to a slide in European equities which exacerbated global growth concerns; the 10yr yield recovered and ended the month at 2.35%
- The Federal Reserve ended its quantitative easing program in October, ending its purchase of mortgage bonds, though it will continue to reinvest principal and interest; since 2008, the Fed has quadrupled its balance sheet to \$4.48 trillion

INDEX RETURNS & MARKET LEVELS^{1, 2}

	Description	Month	3 Months	YTD	1yr
Equities					
S&P 500	<i>U.S. large cap</i>	2.44%	5.05%	10.99%	17.27%
Russell 2000	<i>U.S. small cap</i>	6.59%	5.11%	1.90%	8.06%
MSCI EAFE	<i>Non-U.S. developed</i>	-1.45%	-5.39%	-2.81%	-0.60%
MSCI EM	<i>Emerging markets</i>	1.18%	-4.21%	3.63%	0.64%
Fixed Income					
Barclays U.S. Aggregate	<i>U.S. core inv. grade</i>	0.98%	1.40%	5.12%	4.14%
Barclays Municipal	<i>U.S. municipal</i>	0.69%	2.01%	8.32%	7.82%
BofAML High Yield Master II	<i>U.S. sub inv. grade</i>	1.14%	0.52%	4.79%	5.85%
JPMorgan EMBI Global TR	<i>Emerging markets</i>	1.65%	-0.15%	9.06%	7.20%
Alternatives					
HFRX Global Hedge Fund	<i>Hedge funds</i>	-1.32%	-1.01%	-0.15%	0.96%
Alerian MLP	<i>MLPs</i>	-4.60%	1.60%	13.99%	16.87%
S&P U.S. REIT	<i>REITs</i>	9.96%	6.46%	25.26%	19.05%
Bloomberg Commodity TR	<i>Commodities</i>	-0.80%	-7.95%	-6.35%	-5.94%
U.S. Economic Measures					
U.S. GDP ³		3.5%	<i>(Q3 2014, advance est.)</i>		
CPI-U ex Food & Energy ⁴	<i>"Core" inflation</i>	1.7%	<i>(9/30/2014)</i>		
Unemployment Rate		5.9%	<i>(9/30/2014)</i>		

	Levels		
	10/31/2014	12/31/2013	10/31/2013
Rates			
2yr U.S. Treasury	0.50%	0.38%	0.31%
10yr U.S. Treasury	2.35%	3.04%	2.57%
3mo LIBOR	0.23%	0.25%	0.24%
Prime Rate	3.25%	3.25%	3.25%
30yr Mortgage Fixed	4.13%	4.72%	4.33%

Commodities			
Gold (\$/oz.)	1,164	1,205	1,324
Copper (\$/MT)	6,836	7,395	7,234
Oil-WTI (\$/barrel)	80.54	98.42	96.38
Corn (\$/bushel)	3.54	4.10	4.21

Currencies			
Euro (\$/€)	1.25	1.38	1.36
Pound (\$/£)	1.60	1.66	1.61
Jap. Yen (¥/\$)	112.11	105.11	98.11

Notes: 1) Sources: Bloomberg, J.P. Morgan Asset Management, Morningstar, Hedge Fund Research, Bureau of Labor Statistics, Bureau of Economic Analysis. 2) Data as of the date of this report unless otherwise noted. 3) U.S. GDP measures the percentage change during the referenced quarter as published by BEA. 4) Consumer Price Index for All Urban Consumers: U.S. City Average, All Items Less Food and Energy is based on 12-month percent change as published by BLS.

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