

# Market Environment

October 2013

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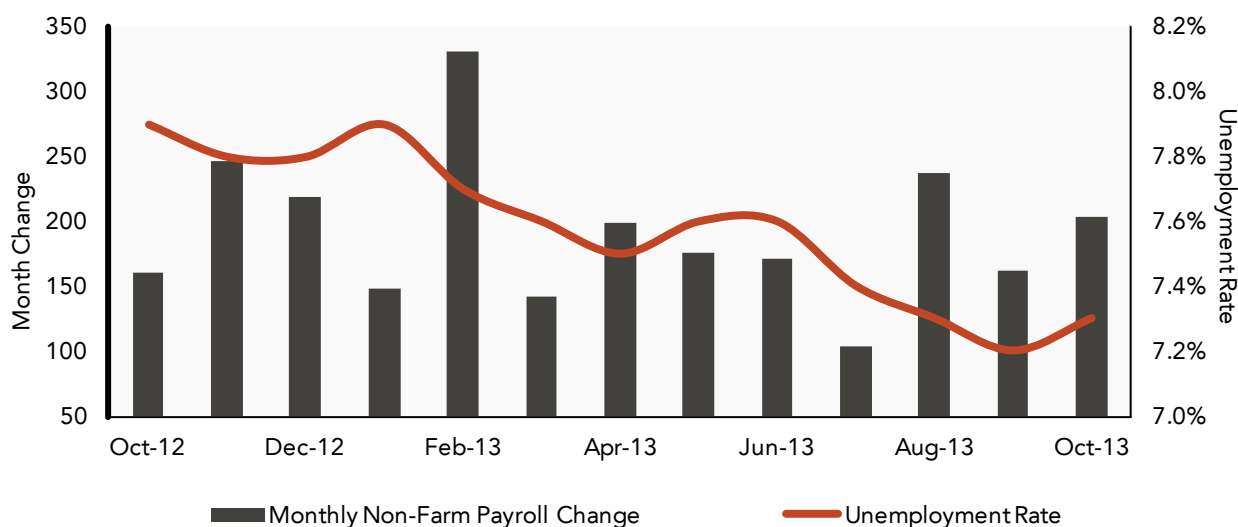
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## U.S. Economy

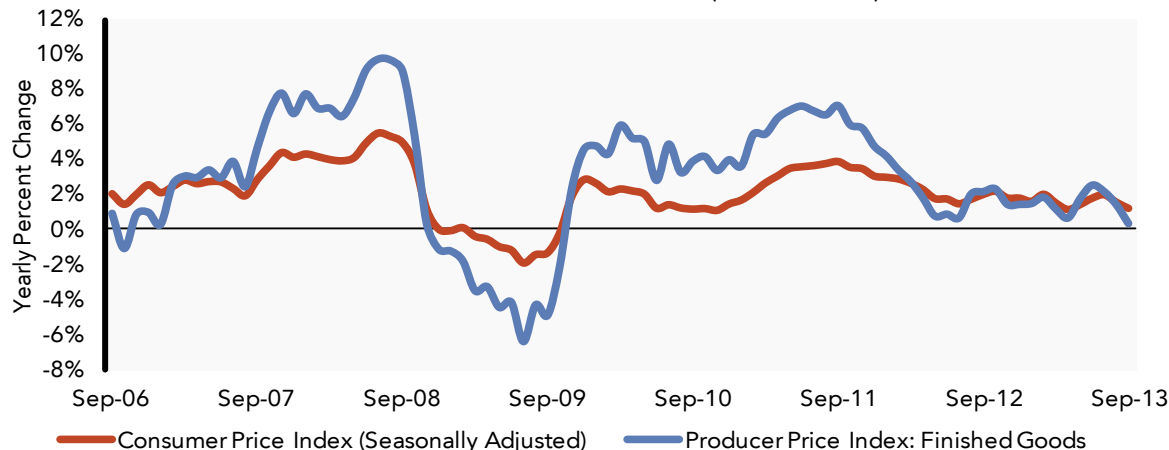
The unemployment rate rose by 0.1% in October to 7.3%. This increase was mostly attributable to furloughed federal workers temporarily being counted as unemployed during the 16-day government shutdown. In October, the labor force participation rate decreased by 0.4% to 62.8% and the employment-population ratio decreased by 0.3% to 58.3%. The labor force participation rate is currently at its lowest level since March 1978. The average duration of unemployment in October lasted for 36.1 weeks and broad unemployment (U6) rose by 0.2% to 13.8%. The non-farm payroll, the net number of non-farm jobs added or subtracted per month, increased by 204K and growth has averaged 190K per month during the past twelve months. Employment growth in October was strongest in leisure and hospitality (53K), retail trade (44K), professional and technical services (21K), manufacturing (19K), and health care (15K). Federal government employment declined by 12K and has decreased by 94K during the past twelve months. Non-farm payroll employment for August and September were revised to show 60K additional jobs created than previously reported.

The Consumer Price Index (CPI-U) increased by 0.2% in September. Within the CPI-U, food was unchanged and energy increased by 0.8%. In the last twelve months, the CPI-U increased by 1.2% with food increasing by 1.4% and energy decreasing by 3.1%. Within the energy index, the gasoline index declined by 7.5% in the last twelve months. Core CPI increased by 0.1% in September and has a year-over-year increase of 1.7%. The Producer Price Index (PPI) fell by 0.1% in September and has a year-over-year increase of 0.3%. Core PPI rose by 0.1% during September.

**Unemployment Data: Monthly Non-Farm Payroll Change and Unemployment Rate**



**U.S. Inflation Data: Consumer Price Index & Producer Price Index (Year over Year)**



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

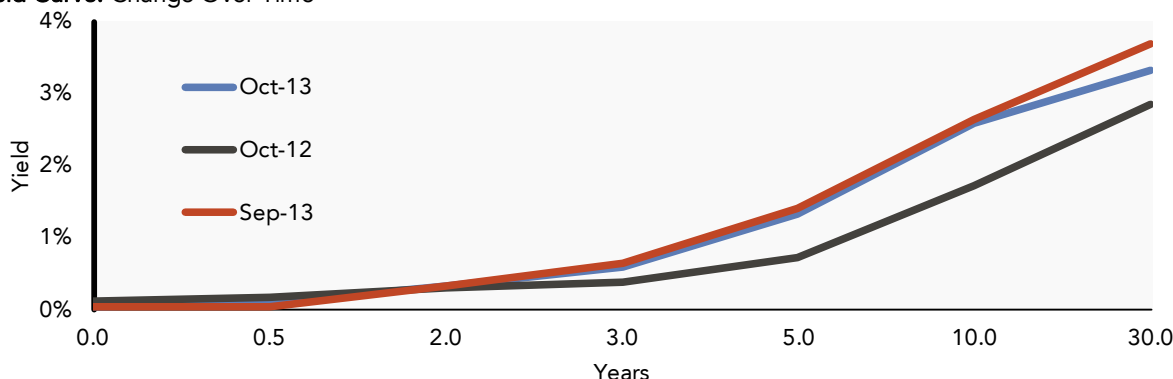
## Fixed Income

For the second month in a row the major fixed income indices produced positive returns. Investors saw the yield curve flatten as the short end rose slightly while the long end dipped, helping drive returns for longer duration bonds. The Fed made no changes to its monthly \$85 billion asset purchase program and markets rewarded bonds with greater credit risk. Corporate bonds had a strong month with Long Credit (2.5%) and High yield (2.5%) leading the way. Investors, encouraged by low default rates and healthy balance sheets, have maintained their appetite for credit as corporations have made record bond issuances in 2013.

### Benchmark Annualized Performance: Select Fixed Income Indices

	Month	3-Month	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Market Indices</b>							
BarCap Aggregate	0.8%	1.2%	-1.1%	-1.1%	3.0%	6.1%	4.8%
BarCap Gov./Credit	0.9%	1.0%	-1.5%	-1.5%	3.2%	6.4%	4.7%
BarCap Long Gov./Credit	2.1%	1.4%	-6.9%	-7.6%	6.2%	11.2%	6.8%
<b>Intermediate Indices</b>							
BarCap Int. Gov./Credit	0.6%	0.9%	-0.2%	0.0%	2.5%	5.4%	4.3%
<b>Government Only Indices</b>							
BarCap Long Gov.	1.3%	1.0%	-8.7%	-9.3%	5.3%	7.5%	6.6%
BarCap Government	0.5%	0.7%	-1.5%	-1.4%	2.3%	4.2%	4.4%
BarCap Int. Government	0.4%	0.7%	-0.5%	-0.3%	1.8%	3.5%	3.9%
BarCap 1-3 Year Gov.	0.1%	0.2%	0.4%	0.5%	0.7%	1.7%	2.7%
91 Day T-Bill	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	1.7%
BarCap U.S. TIPS	0.6%	0.5%	-6.2%	-6.4%	3.3%	7.4%	5.2%
<b>Corporate Bond Indices</b>							
BarCap U.S. Credit	1.4%	1.5%	-1.5%	-1.6%	4.6%	10.2%	5.5%
BarCap U.S. Long Credit	2.5%	1.6%	-5.8%	-6.6%	6.8%	14.3%	6.8%
BarCap High Yield	2.5%	2.9%	6.3%	8.9%	9.2%	18.1%	8.9%
CSFB Leveraged Loan Index	0.8%	1.1%	5.1%	6.3%	6.0%	10.6%	5.1%
<b>Securitized Bond Indices</b>							
BarCap Mortgage	0.7%	1.8%	-0.3%	-0.4%	2.6%	5.1%	4.9%
ABS	0.3%	0.7%	-0.3%	0.0%	2.3%	7.3%	3.6%
CMBS	0.7%	1.2%	0.4%	1.1%	5.2%	11.6%	5.5%

Yield Curve: Change Over Time



Source: Barclays

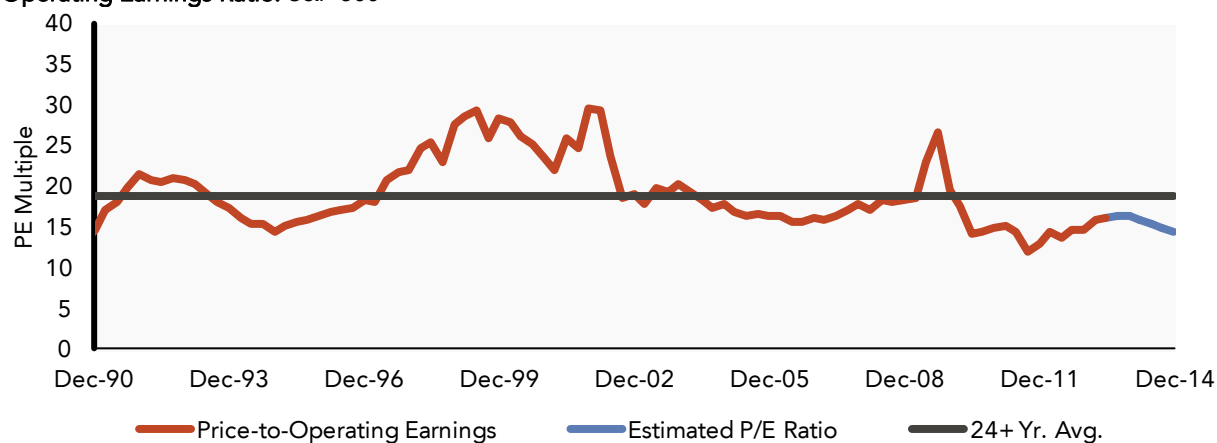
## U.S. Equity

October saw U.S. equities turn in another strong performance as all major indices produced positive returns. Value stocks in the mid and small capitalization levels outperformed growth. Telecom (8.5%) rebounded from a poor September to lead all S&P 500 sectors. Markets experienced volatility in the early part of the month as the government shutdown and debt ceiling dilemma went unresolved. On October 16 legislators reached an agreement which authorized spending through January 15, 2014. Investors reacted positively as the S&P 500 returned 3.5% in the second half of October.

### Equity Returns: Select Index Performance

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Market Indices</b>							
Dow Jones (15,545.75)	2.9%	0.9%	21.0%	21.8%	14.8%	13.9%	7.4%
Wilshire 5000	4.3%	4.9%	26.1%	28.4%	16.6%	15.8%	8.0%
Russell 3000	4.3%	5.1%	26.5%	29.0%	16.9%	15.9%	7.9%
<b>Large-Cap Market Indices</b>							
S&P 500 (1,756.54)	4.6%	4.8%	25.3%	27.2%	16.6%	15.2%	7.5%
Russell 1000	4.4%	5.1%	26.1%	28.4%	16.8%	15.8%	7.8%
Russell 1000 Value	4.4%	2.9%	25.8%	28.3%	16.8%	14.1%	7.8%
Russell 1000 Growth	4.4%	7.2%	26.2%	28.3%	16.8%	17.5%	7.7%
<b>Mid-Cap Market Indices</b>							
Russell MidCap	3.5%	5.4%	28.7%	33.8%	17.4%	19.7%	10.4%
Russell MidCap Value	4.6%	5.1%	28.6%	33.5%	17.5%	18.9%	10.6%
Russell MidCap Growth	2.6%	5.6%	28.7%	33.9%	17.2%	20.3%	9.6%
<b>Small-Cap Market Indices</b>							
Russell 2000	2.5%	5.6%	30.9%	36.3%	17.7%	17.0%	9.0%
Russell 2000 Value	3.3%	4.4%	27.1%	32.8%	16.3%	14.8%	8.8%
Russell 2000 Growth	1.8%	6.8%	34.9%	39.8%	19.0%	19.3%	9.1%

### Operating Earnings Ratio: S&P 500



Source: Encorr, Standard & Poors

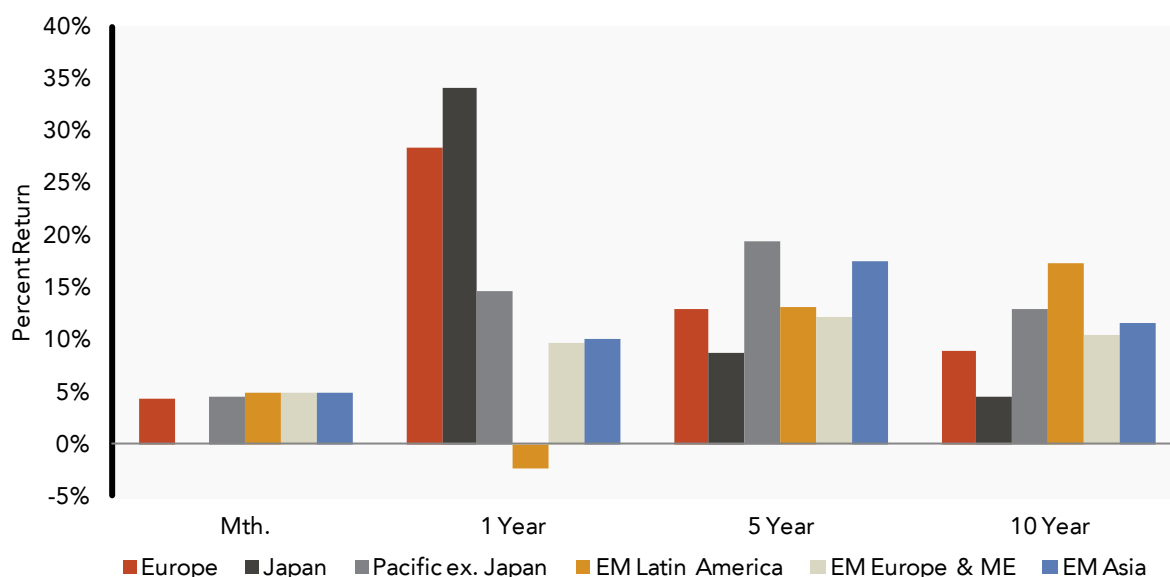
## Non-U.S. Equity

October was an excellent month for international equities as all major international equity indices increased. The ACWI ex. U.S. IMI index returned 3.6% for the month, bringing the year-to-date return to 15%. Of note, emerging markets stocks outperformed their developed market counterparts for the first month thus far in 2013. For October, emerging market stocks were the best performers (4.9%), while frontier market stocks were the worst performers (2.5%). At the regional level, EM Europe & the Middle East was the best performer (5.0%) as optimism for a European recovery continued. Japan was the worst performer (0%) as investors took a step back when Prime Minister Abe announced plans to proceed with a consumption tax likely to slow growth.

### Non-U.S. Equity Performance: Select Indices

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
MSCI ACWI ex U.S. IMI	3.6%	9.5%	15.0%	21.2%	6.6%	13.7%	9.2%
MSCI ACWI ex U.S.	3.7%	9.4%	14.5%	20.8%	6.5%	13.0%	9.0%
MSCI EAFE (U.S. dollar)	3.4%	9.6%	20.5%	27.4%	8.9%	12.5%	8.2%
MSCI EAFE (Local)	3.3%	6.6%	23.8%	31.6%	10.1%	10.4%	6.6%
MSCI EAFE Value	4.1%	10.9%	21.1%	28.4%	8.7%	12.4%	8.3%
MSCI EAFE Growth	2.6%	8.3%	19.9%	26.4%	9.0%	12.6%	8.0%
S&P Global ex U.S. Small Cap	3.2%	10.3%	18.4%	24.9%	7.8%	18.3%	11.1%
S&P Developed ex U.S. Small Cap	3.0%	11.0%	22.8%	28.7%	10.0%	17.6%	10.5%
MSCI Emerging Markets	4.9%	9.9%	0.6%	6.9%	0.6%	15.8%	12.8%
MSCI Frontier Markets	2.5%	3.6%	21.4%	26.0%	4.0%	3.4%	7.4%

### Regional Performance: Equity Market Performance by Region



Source: Encorr

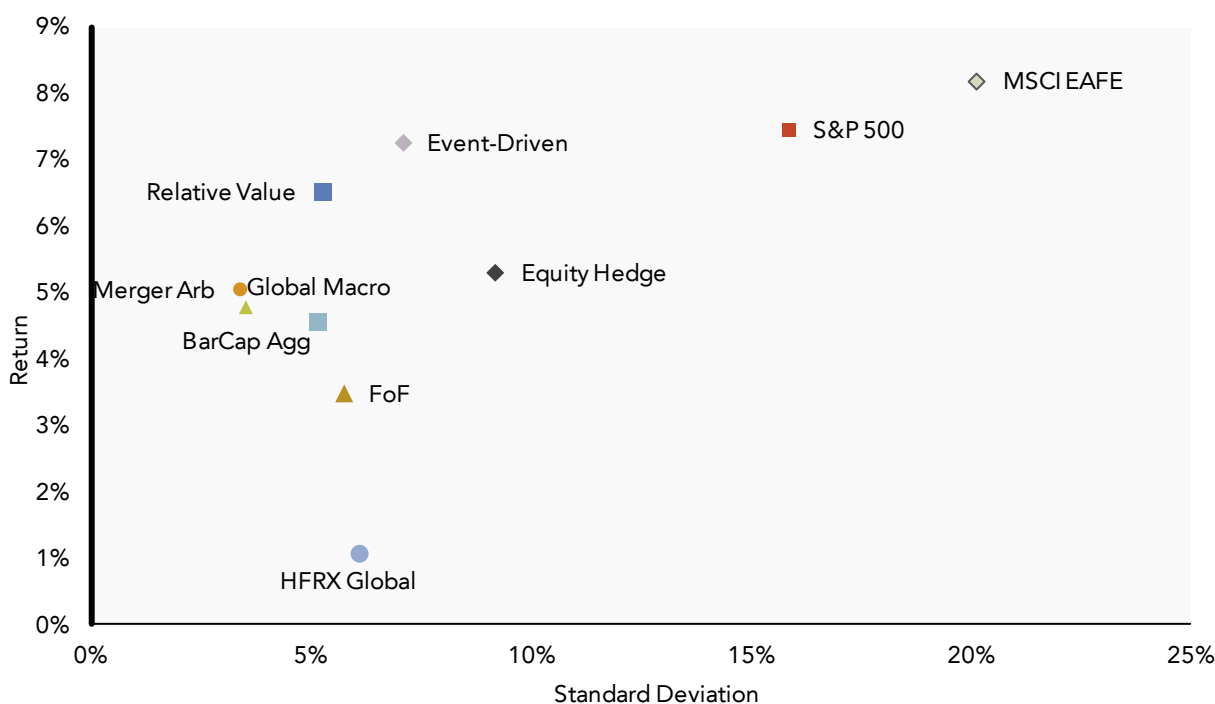
## Hedge Fund

Hedge funds posted another month of positive performance in October on the back of broadly higher equity markets across the globe. Correlations and volatility remain low and dispersion has picked up over the last few quarters which has created a favorable environment for hedged equity managers. Most funds are generating solidly positive alpha but because of low market exposure compared to the long-only benchmarks hedge funds are still trailing the equity markets this year. Global macro bounced back in October as weakness in the U.S. dollar, dispersion in commodity markets, and a selloff in U.S. interest rates all helped contribute to positive returns. Across the industry both gross and net exposure continued to increase modestly during the month.

### Hedge Fund Performance: HFR strategy index returns

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
HFRX Global	1.2%	1.3%	5.6%	7.0%	0.5%	2.6%	1.1%
HFRX Hedged Equity	1.9%	1.4%	8.7%	9.7%	-1.0%	1.7%	0.4%
HFRI Composite	1.5%	2.5%	7.2%	9.2%	3.7%	6.9%	5.8%
HFRI Fund of Funds	1.5%	2.1%	6.6%	8.3%	2.5%	3.5%	3.5%
HFRI Convertible Arbitrage	1.2%	2.4%	7.7%	9.7%	4.3%	14.6%	4.8%
HFRI Equity Hedge	1.8%	3.7%	11.3%	13.6%	4.5%	7.8%	5.3%
HFRI Event-Driven	1.5%	2.8%	10.0%	13.4%	6.0%	9.0%	7.3%
HFRI Macro	1.1%	0.1%	-0.9%	0.1%	-0.9%	1.8%	4.6%
HFRI Merger Arbitrage	0.7%	1.5%	4.0%	5.9%	2.9%	5.0%	5.1%
HFRI Relative Value	1.2%	2.2%	5.9%	7.8%	6.0%	9.8%	6.5%

### Ten Year Risk Return: Hedge Fund Returns vs. Public Markets



Source: HFR, Bloomberg

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