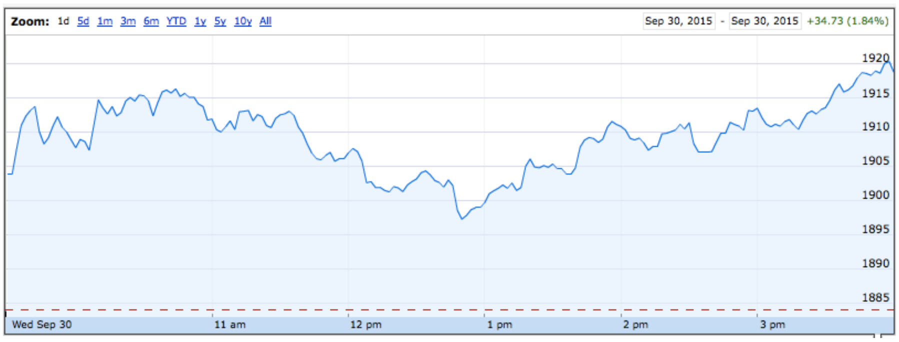
# WEDNESDAY SEPTEMBER 30, 2015

| | PRICE | CHANGE | VOLUME | UP/DN % | UP/DN VOL % |
|---|---|---|---|---|---|
| Dow: | 16,284.70 | +235.57 | **4.53** | 328 | 780 |
| Nasdaq: | 4,620.18 | +102.84 | **2.40** | 250 | 540 |
| S&P 500: | 1,920.03 | +35.94 | | | |
| 10 yr note: | 2.06% | +1bps | | | |
| Volatility: | 24.50 | -2.33 | | | |
| EUR-USD: | 1.117 | -0.008 | Crude Oil: | 45.09 | -0.14 |
| USD-JPY: | 119.88 | +0.07 | CRB-Com: | 193.76 | +0.19 |

S&P 500 WEDNESDAY




Market rally as end of quarter buying helps some of the most battered names recover, particularly energy (+2.5%), and healthcare (+2.5%). The Nasdaq led (+2.3%) led gain in the S&P (+1.9%) and Dow (+1.5%) as an 8.6% drop in volatility signals investors renewed ease. The Russell 2000 (+1.6%) finally rallied today, halting an 8-day losing streak that took it to an 11-month low yesterday. The Nasdaq biotech index (+4.5%) also finally rallied, breaking its longest losing streak since October 2008. The index is still 24% lower from its July record high and 12% lower just this month. Yellen spoke at 3:00 today with little impact on the market. FOMC rate hike odds increased slightly for December (41%) and January (50%).

Today's rally capped the worst quarter for stocks and volatility since the third quarter of 2011, when a European debt crisis roiled markets. The S&P dropped for its second month (-2.6%) and quarter (-6.9%), the first back-to-back quarterly decline since 2011. The Dow lost -7.6% and Nasdaq -7.4% this quarter. The blood spilled in Asia as well, as the Nikkei (-14%) suffered its worst quarter since 2010 while the Shanghai Composite (-28%) fell the most since the first quarter of 2008.

Global investors pulled $40 billion from EM stocks and bonds in the third quarter, the largest outflow since the fourth quarter of 2008 (Institute of International Finance). Fortunately the Yuan has recovered half of its losses against the dollar since its August 11$^{th}$ devaluation, however the Brazilian real (-22%), South African rand (-12%) and Malaysian Ringgit (-14%) suffered worse fates during the third quarter. A commodity rout has taken its toll on these economies, as the S&P GSCI index (-19%) remains at a 6-year low. This toll could come as a credit crisis, with China (25%), Turkey (17%) and Brazil (16%) holding high ratios of private-sector credit to GDP. With all of these countries ratios over a key 10% level, they have a 2/3rds chance of serious banking strains within 3 years (Bank of International Settlements).

Primary stories are shifting from the Fed / China to 3Q earnings /credit spreads. Third quarter earnings season, starting mid-October, is expected to show the first consecutive decline in quarterly earnings since 2009. Earnings for the S&P 500 will have to beat a low -4.9% annual growth benchmark for while revenue is expected to drop -3.4% (FactSet). Stripping energy-related companies, earnings should rise 3.4% next quarter (Reuters).

Earnings for domestic industry will fare the best this quarter (retailers: +11.6%, telecom: +11.1%) while international business suffer (consumer staples: -3.3%, technology: +2.4%). Second quarter profits fell 0.7% annually, the first decline since the 3Q of 2012. And stocks still trade at a premium (16.7x) compared with its 10-year average (15.7) (FactSet).

European equities mirrored their US counterpart, as the Euro Stoxx 600 (+2.5%) rallied today but suffered its worst quarter since 2011. Similarly Europe's credit conditions deteriorated as European corporate debt's premium over government bonds jumped to its widest level since October 2012. A worrying development even if 15% of the widening came from VW (5 year Euro-denom. debt hit 2.9% today from 0.9% earlier this month) and Glencore (5 year Euro-denom. Debt hit 8.4% higher from under 2% in August).

European fundamentals remain weak. Eurozone annual CPI (-0.1%) fell into negative territory for the first time since the region started its QE program in March, prompting speculation that the ECB will announce an extension of its QE program as early as December. The ECB last month lowered its inflation forecasts, worrying that prices will rise even slower if China's slowdown is more pronounced. Eurostat today reported that the Eurozone's August jobless rate was unchanged at 11%.

## ECONOMIC REPORTS:

**September ADP Employment:** +200,000. Private sector job creation beat expectations (190,000) in September, a good sign for Friday's employment report, where +203,000 government and private payrolls are expected. ADP also revised August's initial 190,000 reading down to 186,000. The government should revise August's 140,000 payroll gain substantially higher during Friday's report.

**September Chicago PMI:** -5.7 to 48.7. A sweeping slowdown has blanketed every reporting manufacturing region so far in September, foreshadowing a very weak ISM report tomorrow morning. The Chicago region dropped nearly 5 point below expectations this month as new orders fell below 50 while backlog orders remained in the sub-50 contractionary level for its 8th consecutive month. As with other regions, price pressures continued to ease. Manufacturing's weakness due to a global slowdown and a stronger dollar will only marginally impact the overall economy as the industry is only 12% of GDP.

**Weekly Crude Inventories:** +4.0m barrels. After two seeks of small declines, inventories jump back again as imports gained and refiners scaled back production to 89.8% utilization. Gasoline stockpiles (+3.3m barrels) gained again while distillate inventories (-0.3m barrels) dropped again.

Oil inventories remain at their highest level in the past 80 years, while gasoline is at the upper half and distillates are at the middle of their average range for this time of year. Looking at the past 4-week average of demand compared to last year: gas has gained again to a +4.2% increase, distillates lowered to a +0.2% gain and jet fuel jumped to a +11.8% gain. WTI was $45.55 per barrel last Friday, **exactly $50.00 below a year ago**. The national average retail regular gasoline price dropped for a 6th week, falling 0.5 cents to $2.322 per gallon on the week, $1.232 cents under last year's price.

| Fuel Production/ day: | | Imports/ day: | Inventories: |
|---|---|---|---|
| Oil: | 16.0mm (-) | 7.6mm (+) | 457.9mm (+) |
| Gasoline: | 9.7mm (+) | 990k (+) | 222.0mm (+) |
| Distillates: | 5mm (-) | 56k (-) | 151.6mm (-) |

**Weekly Mortgage Applications:** -6.7%. Mortgage activity retreats after last week's 14% jump as refinance (-8%) and purchase applications (-6%) decline. Nevertheless purchase applications are still 20% over the past year. The MBA believes this report, coupled with August's mixed housing reports is the beginning of a seasonal housing slowdown: "Lower purchase volume seems to indicate that the slowdown in home buying will continue. Both signed contracts to buy homes and closed home sales fell more than expected in August. Fall is traditionally the start of the slower housing season, but this year the signs point to a bigger slowdown than usual."

| Rates: | | |
|---|---|---|
| 30 Year Fixed: | 4.08% | -1bps |
| 15 Year Fixed: | 3.29% | -2bps |
| 5/1 Year ARM: | 2.95% | unch. |