SELECTOR® Money Management
2015 Third Quarter Review

During The Third Quarter Domestic Equities Fell Into Their First Correction Of The Year

July was very quiet, with equity markets continuing inside the very narrow trading range that had contained prices several months. That changed abruptly in late August. In three very volatile days the trading range was broken to the downside, capped by very sharp drop on Monday, August 24th that has thus far marked the low of this correction. The end of September saw a positive test of those lows, but the landscape has changed considerably. The 4% trading range that had prevailed for almost eight months is now a 12%, two-tier range and volatility is markedly higher. The S&P 500 Index declined by -6.44% in the second quarter and is down -5.29% YTD. The S&P 400 Mid Cap Index dropped -8.50% in the second quarter and is -4.66% YTD, while the Russell 2000 Small Cap Index fell -11.92% in the quarter, for a YTD return of -7.73%. As for sector performance, the best performing sector of the third quarter was Utilities, with the Dow Jones Utilities Index gaining +5.08% for the quarter, but still down -6.19% YTD. The only other sector with a positive return was Real Estate, with the Dow Jones U.S. Real Estate Index up +0.46% for the quarter, still down -4.75% YTD. Hardest hit during the third quarter were the Natural Resources sectors. The Dow Jones U.S. Oil & Gas Index dropped -18.50% and the Dow Jones U.S. Basic Materials Index fell -19.16% in the quarter. But the strongest sectors prior to the correction also declined sharply, with the Dow Jones U.S. Health Care Index down -11.38% and the Dow Jones U.S. Select Pharmaceuticals Index down -14.93% in the third quarter.

International Equities Shared A Similar Fate

The MSCI EAFE Index had pulled back in the course of a minor correction in July before quickly regaining its previous trading range. But the month of August was cruel to both developed international and emerging market equities. The MSCI EAFE Index was testing the July correction lows by mid-August and failed quickly, moving into a more severe correction as quickly as U.S. markets. And while international equities did bounce with U.S. markets initially, during the test of those August lows they pushed even lower. During the third quarter the S&P Europe 350 Index fell -8.89%, the MSCI EAFE Index dropped -10.23%, and the MSCI Emerging Markets Index declined by -17.90%. Year-to-date the S&P Europe 350 Index is -5.29%, the MSCI EAFE Index is – 5.28%, and the MSCI Emerging Markets Index is -15.48%. The best performing country is Japan, with the MSCI Japan Index +2.67%. The worst performing country is Brazil, staggering under global price declines in basic materials. The MSCI Brazil 25/50 Index is down -39.25%.

One Would Expect A Flight To The Relative Safety Of Bonds

That response was muted as the Federal Reserve faced its first widely-anticipated increase in short term interest rates in years following their September meeting. The global decline in equities, however convinced the Fed to hold off on increasing rates for the immediate future. Treasury bonds were the strongest recipients of the money flows during the third quarter, with the Barclays U.S. 20+ Year Treasury Bond Index climbing +5.32% in the quarter. YTD the total return for this index is now -0.21%. The Barclays U.S. Aggregate Bond Index gained +1.23% in the third quarter and is now +1.13% YTD. High yield bonds declined with equities in the third quarter. The Markit iBoxx USD Liquid High Yield Index fell -4.40% in the quarter and is now -2.18% YTD.

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