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# Market Month: October 2010

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### The Markets

As investors began handicapping Congressional election outcomes and their potential impact, domestic stocks turned in an October that defied the month's reputation for nasty surprises. With tech and smaller stocks leading the way, the Nasdaq and the Russell 2000 outperformed the large caps. However, the Dow didn't exactly suffer; it surpassed the 11,000 mark for the first time since before May's flash crash. With early third-quarter earnings reports that were generally positive, the S&P 500 had its best October since 2003, and ended the month less than 3% away from its 2010 high. Even the Global Dow returned to positive territory for the year.

Anticipation of additional Federal Reserve easing led to anxiety about potential inflation in the future; by the end of the month, higher prices for 5-year Treasury Inflation-Protected Securities (TIPS) meant they were sold at auction with a negative yield for the first time ever. Gold paused to catch its breath but remained above \$1,300 an ounce.

Market/Index	2009 Close	Prior Month	As of 10/29	Month Change	YTD Change
<b>DJIA</b>	10428.05	10788.05	11118.49	3.1%	6.62%
<b>NASDAQ</b>	2269.15	2368.62	2507.41	6.3%	10.50%
<b>S&amp;P 500</b>	1115.10	1141.20	1183.26	3.9%	6.11%
<b>Russell 2000</b>	625.39	676.14	703.35	4.8%	12.47%
<b>Global Dow</b>	1984.48	1947.85	2021.14	4.0%	1.85%
<b>Fed. Funds</b>	.25%	.25%	.25%	0 bps	0 bps
<b>10-year Treasuries</b>	3.85%	2.53%	2.63%	10 bps	-122 bps

### The Month In Review

- Concerned that a 1.1% consumer inflation rate is too low to support economic growth, the Federal Reserve indicated it is likely to pursue a new round of bond-buying to help promote "maximum employment and price stability." Meanwhile, Japan cut its interest rate to virtually zero to try to stimulate its economy. Such measures led the International Monetary Fund to warn countries against competing to increase exports by devaluing their currencies.
- The Commerce Department said economic growth in the U.S. improved during the third quarter as gross domestic product (GDP) rose by 2%. That's better than the second quarter's 1.7%, but not as robust as the 3.7% seen during the first three months of 2010.
- Mortgage foreclosures in September hit a record high in September, according to RealtyTrac, with five states accounting for roughly 50% of that. The speed with which foreclosures were processed came under scrutiny as attorneys general in all 50 states launched a joint investigation of mortgage foreclosure proceedings because of reports about so-called "robo-signed" paperwork. Several large lenders briefly imposed moratoriums on foreclosures, which were lifted within days, but some institutional investors in mortgage-related bonds began taking steps to force some banks to buy back troubled mortgages underlying those bonds.
- The Commerce Department said retail sales rose 0.6% in September, making the third consecutive month of increases. Housing starts and new home sales also rose as mortgage rates hit all-time lows, according to Freddie Mac.
- The Chinese government's decision to try to control rapid growth there by raising interest rates for the first time in three years spurred anxiety about the ramifications for the global economy.
- Despite improvements in private-sector payrolls, the Commerce Department said the loss of 159,000 local and federal government jobs kept the unemployment rate stalled at 9.6%.

### Eye on the Month Ahead

As domestic equities head into what has historically been their most robust season, news out of Washington is likely to dominate trading. In addition to gauging the midterm election results and the impact of the Federal Reserve's anticipated bond-buying efforts, investors will begin assessing the outlook for holiday consumer spending.

Key dates and data releases: Personal income/spending, U.S. manufacturing, construction spending (11/1); auto sales (11/2); Federal Reserve Open Market Committee announcement, U.S. services (11/3); productivity (11/4); unemployment/payrolls (11/5); balance of trade (11/10); retail sales (11/15); wholesale inflation, industrial production, (11/16); consumer inflation, housing starts (11/17); options expiration (11/19); 2nd estimate of Q3 GDP, existing home sales (11/23); durable goods orders, new home sales, personal income/spending (11/24); home prices (11/30).

*\* Unemployment data based on August 6 report for July 2010. Data source: All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. Equities data reflects price changes, not total return.*

*The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indexes listed are unmanaged and are not available for direct investment.*

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