Third Quarter 2015 Financial Market Commentary

October, 2015

The Unloved Bull Market in Stocks Gets Tested

After rallying 70% since the last market correction (third quarter of 2011), the S&P 500 Index and most other risk-based assets, with the exception of REITs and preferred stocks, generated correction-territory negative returns for the third quarter of this year. The primary reasons for the losses include China's economic slowdown and uncertainty over when the Federal Reserve plans to raise interest rates.

During the quarter, U.S. Treasuries, Municipal Bonds, and Mortgage-Backed Securities were the top performers in the bond sector as falling commodity prices dimmed the outlook for inflation and the Fed held off from raising interest rates at its September 17th Federal Open Market Committee meeting **(See Tables #1 & #2)**.

Bonds rallied and the dollar tumbled after the Federal Reserve decided against raising interest rates on September 17th. U.S. stocks fell as the Fed's decision fueled concern that slowing global growth could hamper the domestic economy. Fed Chair Janet Yellen indicated that global risks overshadowed signs of strength in the U.S., where inflation remains stubbornly low. She said most Fed officials still expect a rate increase this year and that the U.S. economy is performing well. ***She reinforced that the path of rate increases would be gradual.***

TABLE #1: 2015 3rd Quarter and 1 Year Ending September 30th - Asset Class Index Returns*

	Large Cap Stocks	Mid-Cap Stocks	Small Cap Stocks	Int'l Stocks	Emerging Stocks	Intermediate Bonds	High Yield Bonds	Real Estate (REITs)	Preferred Stocks	Commodities	Cash
3Q 2015	-6.41%	-8.48%	-11.90%	-10.12%	-17.72%	0.90%	-2.58%	0.99%	1.73%	-19.30%	0.01%
1YR 9/30/15	-0.59%	1.39%	1.25%	-8.11%	-18.90%	2.74%	-3.75%	7.84%	6.80%	-41.74%	0.03%

TABLE #2: 2015 3rd Quarter and 1 Year Ending September 30th – Bond Sector Index Returns*

	U.S. Treasuries 1-10yr	U.S. Agencies 1-10yr	Corporate Bonds 1-10yr	Mortgage-Backed Securities (MBS) 0-10yr	Municipal Bonds 1-10yr
3Q 2015	1.25%	0.77%	0.35%	1.31%	1.19%
1 YR 9/30/15	3.19%	2.40%	2.05%	3.34%	1.81%

*Source: Bloomberg and Bank of America/Merrill Lynch Indices

While global economic growth is definitely slowing, we do not believe a recession is imminent. Currently, none of the typical recession signals are flashing. The bond yield curve remains steeply-sloped with 10 Year U.S. Treasury Notes yielding 141 basis points more than 2 Year U.S. Treasury Notes. This spread usually narrows or becomes negative before a recession. Retail sales climbed in July and August as consumers spent money on autos, clothing,

and food at restaurants thanks to job gains and savings from cheap energy. Job growth has remained steady averaging monthly gains of 238,000 jobs over the past year. The Consumer Confidence Index recently has risen above 100 in each of the last two months of the quarter. Purchases of new homes jumped to a seven-year high in August as buyers took advantage of historically low mortgage rates. By all measures, inflation and inflation expectations remain low. There is a lack of significant global imbalances and signs of overextension that typically lead to a recession such as financial market bubbles, excessive leverage, and deteriorating bank balance sheets. Absent an economic recession, the six year bull market in stocks should remain intact.

No major tactical changes to asset allocation strategies were made during the quarter. Concerns about the longevity of the six-year bull market have grown this year, especially this quarter. However, we strongly believe that stocks underwent a bull market correction over the past 2.5 months. Since March of 2009, the S&P 500 Index has experienced 10 corrections ranging between returns that were down -5.5% to - 16.5%. After each correction, the stock market has gone on to make new highs. We don't believe this time will be any different. The economic fundamentals in the U.S. have continued to improve while global central banks in Europe, Japan, and China are in the early stages of monetary policy stimulus.

The late Sir John Templeton's infamous quote has historically held true. "Bull markets are born on pessimism, grown on skepticism, mature in optimism and die in euphoria." The current bull market, which began on 3/9/2009, seems to be very much unloved and is currently in the skeptical stage. Based upon equity fund flow data from the Investment Company Institute, stocks have been under-owned for the past year as net outflows outpaced net inflows by an almost 2 to 1 ratio. Meanwhile, for U.S. corporations, domestic profits have continued to out-pace non-U.S. corporate profits by a ratio of 2 ½ times. On a relative basis, earning yields on global stocks are much higher and more attractive than bond yields and cash rates.

At this time, we are not reducing risk-based asset exposure. The Fed continues to state that even after they begin to raise interest rates, the pace will be very gradual. Global liquidity is abundant. Low interest rates will continue to force money into riskier, but potentially higher-returning investments such as stocks. After this recent bull market correction, we believe that global stocks should resume outperforming bonds and cash. For now, we are keeping broad asset allocations in stocks, bonds, & cash close to their strategic targets and are looking for tactical opportunities in global stock markets.

Andrew Zimmerman – Chief Investment Strategist

Notes: The DT Investment Partners' Commentary and Outlook discusses general developments, financial events in the news and broad investment principles. It is provided for information purposes only. The material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Investments in various asset classes entail different investment risks. For example, small cap stocks tend to be more volatile than large or mid-cap stocks. International and emerging markets stocks have exposure to currency fluctuations, foreign taxes, political instability and the possibility for illiquid markets. Fixed income investments involve interest rate and credit risks among others. Real estate investing includes risks such as declines in value of real estate, changing economic conditions, tax laws or property taxes. Commodities' investing is highly volatile and subject to changing economic conditions and the vagaries of speculators among other risks. Further, diversification and strategic or tactical allocation do not assure profit or protect against loss in declining markets. Index performance returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index. Past performance does not guarantee future results.