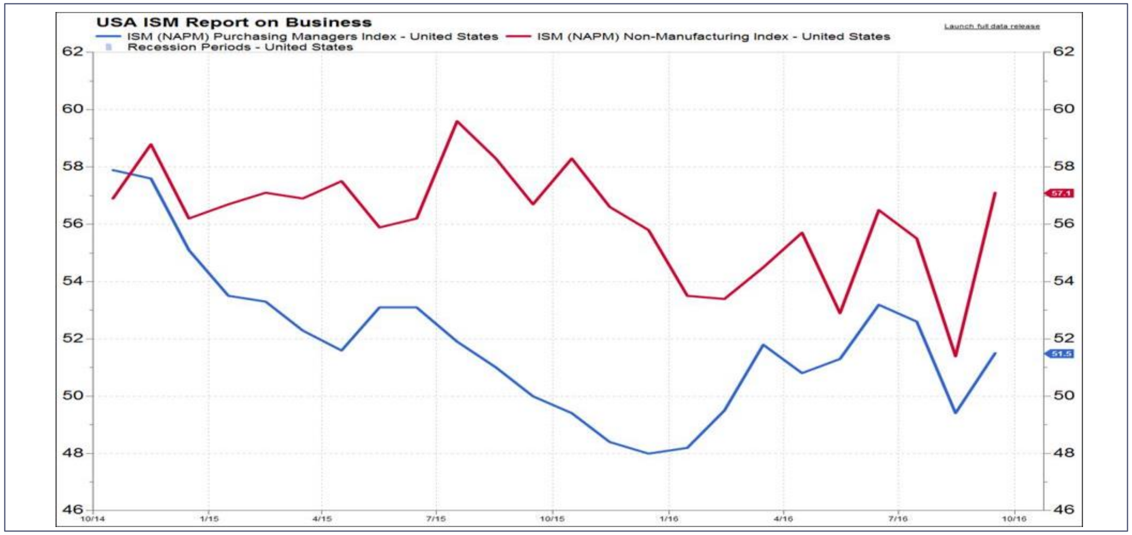
Market Recap

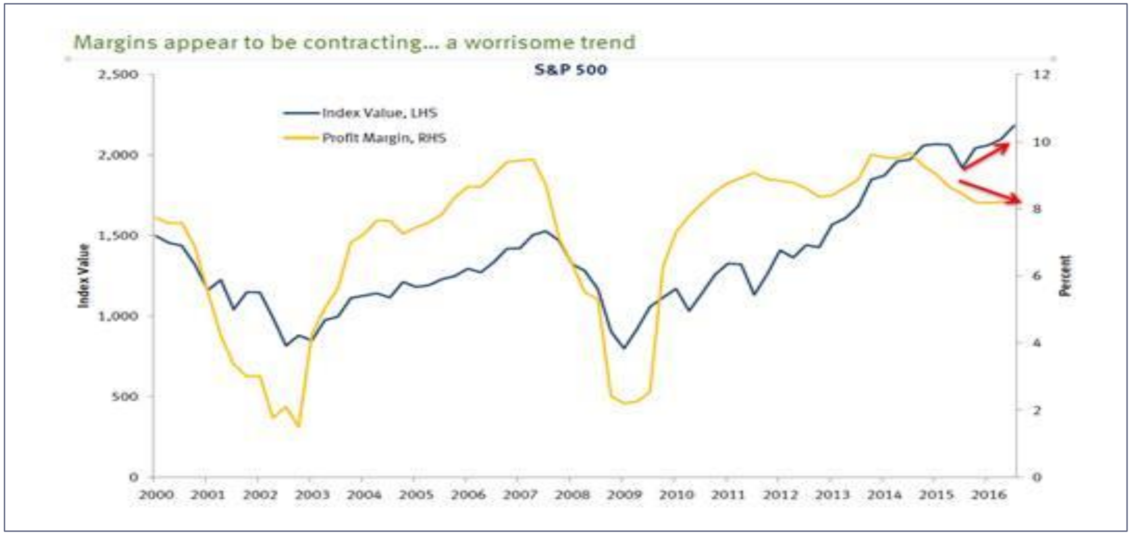
Economic Indicators Appear Resilient



Source: Fact Set

ISM PMI readings provide information about the economic health of the manufacturing and non-manufacturing segments of the broader economy, playing a crucial role in the production decisions of firms across the country, and thus serving as a leading indicator of business activity. PMI readings above 50 indicate an economy in expansionary territory, with numbers under 50 indicating slowing business activity. Despite a brief softening in the data following a period of strength through the summer, the September readings have come in above expectations. The Manufacturing PMI (blue line) for September was 51.5%, up 2.1% from August, following a 3.2% decline into that month. The Services PMI (red line) saw an even bigger jump to 57.1%, up 5.7% from August. While this recent data may signal a more positive trend, it will remain crucial to watch future releases.

Contracting Profit Margins Pose Risks for Broader Economy



Source: Stifel

While improving PMI readings may indicate stronger business activity, declining corporate profits still represent a significant headwind to future GDP growth. Profit margins remain a concern as a rising U.S. dollar, weak energy prices, and tightening labor market conditions - alongside a drop in labor productivity - have all contributed to margin contraction. The stronger U.S. dollar has hurt exporters and large multinationals, while falling energy prices have wreaked havoc on the energy sector. In the latter, capital expenditures have dropped significantly as rigs come offline. As margins narrow, corporations have a tendency to restrain business investment (i.e. capital expenditure and employment) which, in turn, dampens GDP growth.

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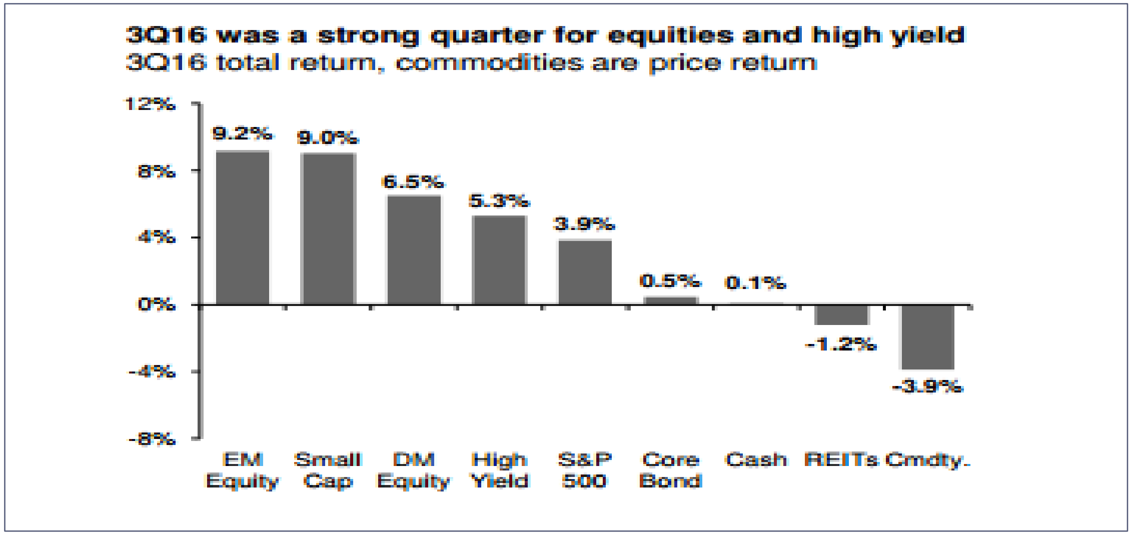
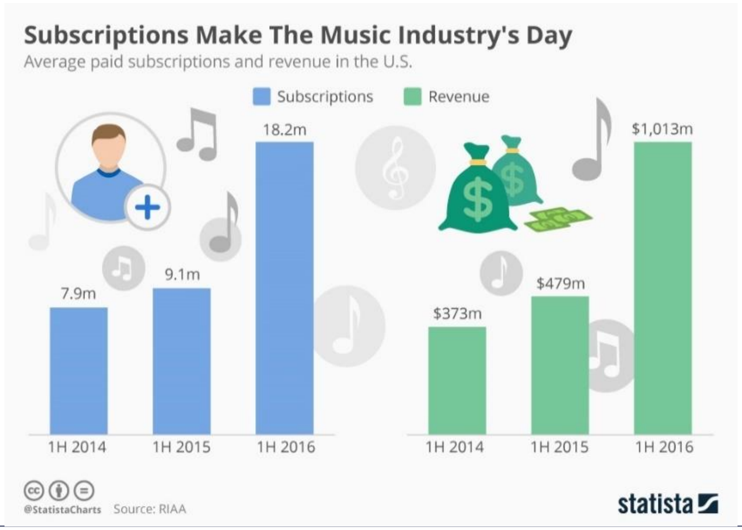
3rd Quarter Equity Markets in Review



Source: JP Morgan

Streaming Services Drive Growth in Music Industry



Source : Statista

The 3rd quarter kicked off with a sharp rally in risk assets, which was somewhat unexpected on the heels of the Brexit decision at the end of the 2nd quarter. These gains were maintained through the following two months, with exceptionally low levels of volatility helping to keep equities range-bound. Investors spent the majority of the summer confident that growth would remain slow but steady, with monetary policy remaining accommodative. While some of the gains were given back in September on rising uncertainty regarding central bank activity around the world, equities broadly performed well through the quarter. Emerging and Developed International Equity Markets outperformed the S&P 500, while Small Cap stocks outperformed Large Caps. In fixed income, High Yield outperformed Core bonds by a wide margin, led by energy names. Commodities, beaten down by the strong U.S. dollar, went from the highest performing group in Q2 to the worst in Q3.

After struggling to adjust to and monetize modern music consumption habits, the recording industry finally may have found its footing. From mid-2015 to mid-2016, the music business experienced revenue growth of 8.1%, thanks to the rise of streaming services like Spotify and Apple Music. Over the same period, paid streaming subscriptions doubled to 18.2 million, boosting streaming revenue by nearly 112% and offsetting a 16% decline in CD sales and digital downloads. Assuming this trend continues, 2016 will mark the industry's first year-over-year revenue increase since the late 1990s. In fact, streaming services may prove to be more lucrative than CDs or vinyl ever were. At the industry's 1999 peak, customers spent an average of $64 per year on albums, while the trend toward streaming subscriptions could mean that the average music consumer will pay closer to $120 per year for their music access.

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