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October 2011: Market Review

After five consecutive down months, global equity markets staged a major rally in October. The impetus for the market rebound was initial data indicating increased growth in the U.S. economy and a deal reached in Europe to assist Greece with its debt load and boost the region's bailout fund. The Dow Jones Industrial Average rose 9.72% for the month, leaving it with a year-to-date return of 5.45%. The S&P 500 Index gained 10.93%, also bringing its year-to-date return into positive territory, up 1.30%.

Economic news in October provided investors some welcomed reassurance about the health of the U.S. economy despite macro-economic headwinds. Estimated third quarter GDP growth came in at a 2.5% annual rate, an improvement from the 1.3% rate seen in the second quarter of 2011. Recent reports indicate that home prices rose slightly in August on a month-over-month basis, according to the S&P/Case-Shiller Home Price Index. However, spring and summer are typically stronger buying periods and demand for homes is still below a level considered healthy for the economy. Consumer spending rose 2.4% in the third quarter, although this has not translated to increased job creation as the U.S. unemployment rate remains at around 9%. Among commodities, barrels of WTI crude oil rose to $93 by the end of October after ending September at a 12-month low of around $79, while gold closed the month at $1,722 per troy ounce after hitting a price of more than $1,900 in August.

Growth and value styles both were up double digits in October, although growth style equities continue to significantly outperform year-to-date across all capitalizations. Among large cap stocks, the Russell 1000 Growth Index grew 10.97% in October and has gained 2.98% for the year, while the Russell 1000 Value Index rose 11.45%, but is down (1.08%) for the year. Small cap stocks were the best-performing U.S. equities for the month, as the Russell 2000 Growth Index gained 15.86%, but remains down (2.17%) year-to-date, while the Russell 2000 Value Index increased 14.41%, but has fallen (6.77%) thus far in 2011. The Russell Midcap Index grew 13.01% in October, but is down (0.93%) year-to-date.

International equity indexes also were up significantly in October, as European leaders agreed on a deal to provide a bailout to Greece and lessen its debt load, assuming the country can further reduce its budget deficit. However, on the last day of the month, Greek Prime Minister George Papandreou announced that acceptance of the bailout would be subject to a popular vote in Greece, potentially exposing the European economy to more uncertainty in November and beyond. The MSCI EAFE Index rose 9.64% in October, but still is down (6.78%) year-to-date. The MSCI Europe Index gained 12.10%, but has lost (5.39%) year-to-date. The MSCI Emerging Markets Index grew 13.25% for the month, but is down (11.53%) year-to-date.

Fixed income performance was mixed in October as investors began returning money to riskier asset classes. The Barclays U.S. Aggregate Bond Index gained 0.11% during the month and is up 6.76% in 2011. The Barclays U.S. Treasury Composite Index fell for the first time since the U.S. debt rating downgrade, ending the month down (0.82%), bringing its year-to-date gain to 7.96%. Among longer-term bonds, the Barclays Treasury 20+ Year Index dropped (4.49%) for the month, leaving it with a gain of 25.53% year-to-date. The Barclays Corporate High Yield Index rose 5.99% in October after two months of declines. Its year-to-date return is 4.52%.

After October's large gains, investors are hoping that equity markets can close out the year on a strong note as the U.S. economy shows signs of vitality. However, questions remain about the details of the European bailout package and its ultimate passage as well as the strength of global economic growth.