

The Economy

The Blue Chip Economic Indicators survey in September revealed a 2012 U.S. Gross Domestic Product (GDP) forecast of 2.2%. Economists see GDP growth slightly lower at 2.1% in 2013. Brian Wesbury, Chief Economist at First Trust Advisors, is also looking for 2.2% GDP growth in 2012, but is targeting 3.0% for 2013. Nonfarm payrolls increased by 114,000 in September, just shy of Bloomberg's 115,000 consensus forecast. While encouraging, the 114,000 new jobs are less than half the 250,000 per month needed to put any kind of a serious dent in the unemployment rate, which stands at 7.8%. The Federal Reserve announced a third-round of quantitative easing (buying \$40 billion of mortgage-backed securities a month) and it is open-ended.

Consumer Confidence 70.3 (Sep) 60.6 (Aug)	Crude Oil (Mo.-End) \$92.19 (Sep) \$96.47 (Aug)	Personal Spending 0.5% (Aug) July was 0.4%	ISM Manufacturing 51.5 (Sep) 49.6 (Aug)	ISM Non-Manufacturing 55.1 (Sep) 53.7 (Aug)
Gold (Mo.-End) \$1771.10 (Sep) \$1685.30 (Aug)	Natural Gas (Mo.-End) \$3.32 (Sep) \$2.80 (Aug)	Factory Orders -5.2% (Aug) July was 2.8%	New Home Sales 373,000 (Aug) 372,000 (Jul)	Existing Home Sales 4.82M (Aug) 4.47M (Jul)

The Stock Market

Indices (Source: Bloomberg)

	Sep	12-mo.
S&P 500	2.6%	30.2%
DJIA	2.8%	26.5%
NASDAQ 100	1.0%	32.4%
S&P 400	1.9%	28.5%
Russell 2000	3.3%	31.9%
Russell 3000	2.6%	30.2%
MSCI World (ex U.S.) (USD)	3.0%	13.8%
MSCI Emerging Markets (USD)	6.0%	16.9%

Growth/Value (Source: Bloomberg)

	Sep	12-mo.
S&P 500 Growth	2.1%	29.7%
S&P 500 Value	3.1%	30.8%
S&P 400 Growth	1.7%	26.0%
S&P 400 Value	2.2%	31.7%
Russell 2000 Growth	3.0%	31.2%
Russell 2000 Value	3.6%	32.6%

Ninety-five out of the 132 subsectors (72%) that comprise the S&P 500 posted a gain in September, down from 98 (74%) last month, according to S&P. Telecommunication Services was the top performing sector, up 4.0%. In September, the dividend-payers (403) in the S&P 500 (equal weight) posted a total return of 2.36%, vs. 2.30% for the non-payers (97), according to Standard & Poor's. Year-to-date, the payers were up 13.17%, vs. a gain of 15.76% for the non-payers. For the 12-month period ended August, payers were up 28.64%, vs. a gain of 26.22% for the non-payers. The number of dividend increases y-t-d totaled 254, up from 242 a year ago. Seven dividends were cut, up from four a year ago. The S&P Dow Jones Indices, which tracks approximately 10,000 U.S. traded stocks, announced that total stock dividend distributions increased by a net \$8.8 billion in Q3'12, according to its own release. In Q3, 439 companies increased their dividend payouts, up 25.4% over the 350 increases in Q3'11. The number of companies decreasing their dividend payouts rose from 23 in Q3'11 to 53. The dividend payout rate, which has historically averaged 52%, remained low, at 34%. Equity income funds reported net inflows totaling \$20.3 billion in the first eight months of 2012, \$11.5 billion more than the next closest U.S. equity category, according to Lipper data.

U.S. Dollar Index (DXY) -1.6% (Sep) -0.3% (YTD) \$ was up 1.5% in '11	CBOE Total Equity Options (# of contracts in millions) Sep: 38.2 (-8.0%) Aug: 41.5 (+4.8%) Record 7/08: 67.2 million	Short Interest (NYSE) Sep 14: 14.0B (+1.4%) Aug 15: 13.8B (-1.4%) Record 7/08: 18.61 billion shares	VIX Volatility Index (S&P 500) 15.73 (9/28) 17.47 (8/31) Record 11/20/08: 80.86
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The Bond Market

Index (Source: Barclays)

	Sep	12-mo.	Yield
U.S. Treasury: Intermediate	-0.03%	2.43%	0.55%
GNMA 30 Year	0.12%	4.06%	1.76%
Municipal Bond (22+)	0.67%	12.21%	3.40%
U.S. Aggregate	0.14%	5.16%	1.61%
Intermediate Corporate	0.82%	9.19%	2.14%
U.S. Corporate High Yield	1.39%	19.37%	6.51%
Global Aggregate	1.22%	5.07%	1.71%
Global Emerging Markets	1.79%	18.61%	4.58%

The yield on the benchmark 10-Year T-Note rose by 8 bps. to 1.63% in 9/12. The federal government reported a \$1.1 trillion fiscal deficit for 2012. It is the 4th consecutive fiscal year where the deficit exceeded \$1 trillion, according to the Congressional Budget Office. The U.S. national debt level topped \$16 trillion in early September. It will be interesting to see if the Fed's extension of QE2 (Operation Twist) and QE3 (\$40B in monthly mortgage purchases) can push intermediate-term interest rates lower or if it needs to be this aggressive to hold interest rates at current levels. At the close of Q3'12, bond fund managers believe that investment-grade corporate bonds will offer the best opportunities heading into 2013, according to MarketWatch.com. A "happy medium" between high yield corporate bonds and Treasuries.

Key Rates as of September 28	
Fed Funds	0-0.25%
2-Yr. T-Note	0.23%
10-Yr. T-Bond	1.63%
30-Yr. Mortgage	3.43%
Bond Buyer 40	4.18%

(Source: Bloomberg)

Key Yield Spread	
The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 549 basis points on 9/28/12, down from 580 on 8/31/12. It was 771 on 9/30/11.	

(Source: Bloomberg)

2012 Debt Issuance Through August		
(Source: Thomson Reuters)		
Debt Category	\$ Amount	% change over '11
Treasury	\$1.60 Trillion	+8.5%
Corporate	\$823.5 Billion	+9.7%
Convertible	\$11.6 Billion	-33.9%
Asset-Backed	\$129.3 Billion	+65.4%
Municipal	\$250.2 Billion	+57.3%

Equity funds reported net cash outflows totaling \$19.2 billion in 8/12, vs. \$9.4 billion of outflows in 7/12, according to the Investment Company Institute. Bond funds reported net inflows totaling \$31.7 billion, vs. \$24.6 billion of net inflows in 7/12. Money Market fund net inflows totaled \$5.6 billion, vs. \$34.7 billion of net inflows in 7/12. Y-T-D through August, equity funds reported net outflows totaling \$59.0 billion, vs. \$207.7 billion of net inflows for bond funds (municipals had net inflows totaling \$38.8B) and \$138.1 billion of net outflows for MMFs.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	1565.15	10/09/07	676.53	03/09/09	1440.67	-7.95%	16.44%	2.07%
S&P 500 Growth	793.29	09/19/12	363.99	03/09/09	781.52	-1.48%	17.00%	1.80%
S&P 500 Value	836.19	07/13/07	307.16	03/09/09	651.44	-22.09%	15.78%	2.38%
S&P 400	1026.85	09/14/12	372.88	10/09/02	989.02	-3.68%	13.77%	1.66%
S&P 400 Growth	467.42	09/14/12	162.27	10/09/02	452.44	-3.20%	14.25%	1.12%
S&P 400 Value	361.18	06/04/07	135.55	10/09/02	339.70	-5.95%	13.69%	2.24%
S&P 100	729.79	10/09/07	322.13	03/09/09	663.80	-9.04%	18.34%	2.15%
DJIA	14164.53	10/09/07	6547.05	03/09/09	13437.13	-5.14%	12.19%	2.51%
NASDAQ 100	2864.03	09/19/12	804.64	10/07/02	2799.19	-2.26%	23.93%	1.11%
Russell 2000	865.29	04/29/11	327.04	10/09/02	837.45	-3.22%	14.23%	1.58%
Russell 2000 Growth	497.75	04/29/11	169.69	10/09/02	482.20	-3.12%	14.08%	0.86%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	1102.58	-13.63%	14.37%	2.29%
Russell 3000	907.58	10/09/07	389.61	03/09/09	849.28	-6.42%	16.12%	2.00%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	4022.69	-25.23%	9.90%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	79.55	10/10/02	399.21	-15.66%	11.98%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2160.80	10/16/02	29150.67	-34.70%	-3.69%	4.26%
RTS/Russia (USD)	2487.92	05/19/08	334.06	09/30/02	1475.70	-40.69%	11.27%	3.62%
Bombay SE 500/India (USD)	226.04	01/07/08	21.10	10/28/02	134.51	-40.49%	27.06%	1.46%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	331.94	-59.03%	-2.56%	2.76%
KOSPI/South Korea (USD)	2.29	10/31/07	0.41	03/17/03	1.80	-21.65%	13.33%	1.23%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	2687.49	-34.17%	17.14%	3.41%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	997.81	-49.82%	11.50%	3.90%
S&P Consumer Discretionary	376.80	09/19/12	125.72	03/09/09	370.26	-1.74%	21.38%	1.56%
S&P Consumer Staples	373.32	09/20/12	182.72	03/10/03	369.97	-0.90%	12.74%	2.80%
S&P Energy	668.81	05/20/08	168.29	01/27/03	551.19	-17.59%	7.55%	2.04%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	184.89	-17.43%	4.26%	4.00%
S&P Financials	509.55	02/20/07	81.74	03/06/09	210.07	-58.77%	21.62%	1.82%
S&P Banks	414.38	02/20/07	49.02	03/05/09	163.45	-60.56%	27.59%	2.14%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	503.64	-25.56%	16.09%	3.35%
S&P Health Care	467.33	09/27/12	252.84	03/05/09	465.29	-0.44%	17.80%	2.10%
S&P Pharmaceuticals	380.62	09/27/12	214.50	03/03/09	379.11	-0.40%	15.29%	3.19%
NYSE Arca Biotechnology	1599.94	09/21/12	307.08	10/09/02	1558.24	-2.61%	42.87%	0.08%
S&P Information Technology	507.31	09/17/12	172.88	10/09/02	494.54	-2.52%	21.78%	1.15%
Philadelphia Semiconductor	560.65	01/12/04	171.32	11/20/08	382.27	-31.82%	6.16%	1.65%
S&P Telecom Services	181.06	05/31/07	79.00	09/30/02	157.13	-13.22%	25.88%	4.42%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	319.31	-16.23%	11.23%	2.40%
S&P Materials	285.91	05/16/08	102.55	10/09/02	232.88	-18.55%	11.96%	2.61%
Philadelphia Gold & Silver	228.95	04/08/11	59.89	10/21/02	191.00	-16.58%	7.24%	1.34%
Reuters/Jefferies CRB	473.52	07/02/08	200.34	03/02/09	309.30	-34.68%	1.31%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	186.07	-5.95%	16.72%	6.31%
Merrill Lynch High Yield Master II	307.36	09/19/12	106.67	10/10/02	305.06	-0.75%	11.94%	7.12%