

## The Economy

Last month, we discussed the strong rebound in state tax collections to illustrate how broad the U.S. recovery is. This month we offer the following: Cash holdings on the balance sheets of U.S. nonfinancial companies now totals \$1.48 trillion, up 81% since '06, according to Moody's. Brian Wesbury, Chief Economist at First Trust Advisors L.P., continues to drive home the point that too much government spending and bad policy is impeding growth. A recent report by Macroeconomic Advisors estimates that fiscal policy uncertainty has cost the U.S. 900,000 jobs since 2009 and shaved 0.3 percentage points from economic growth per year. The International Monetary Fund is forecasting a 2.6% GDP growth rate for 2014, up from 1.6% in 2013.

<b>Consumer Confidence</b> <b>71.2</b> (Oct) 79.7 (Sep)	<b>Crude Oil (Mo.-End)</b> <b>\$96.38</b> (Oct) \$102.33 (Sep)	<b>Personal Spending</b> <b>Delayed</b> (Sep) Aug was +0.3%	<b>ISM Manufacturing</b> <b>56.4</b> (Oct) 56.2 (Sep)	<b>ISM Non-Manufacturing</b> <b>55.4</b> (Oct) 54.4 (Sep)
<b>Gold (Mo.-End)</b> <b>\$1323.70</b> (Oct) \$1326.50 (Sep)	<b>Natural Gas (Mo.-End)</b> <b>\$3.58</b> (Oct) \$3.56 (Sep)	<b>Factory Orders</b> <b>+1.7%</b> (Sep) Aug was -0.1%	<b>Durable Goods</b> <b>+3.7%</b> (Sep) Aug was +0.1%	<b>Existing Home Sales</b> <b>5.29M</b> (Sep) 5.48M (Aug)

## The Stock Market

### Indices (Source: Bloomberg)

	Oct	12-mo.
S&P 500	4.6%	27.2%
DJIA	2.9%	21.8%
NASDAQ 100	5.0%	29.7%
S&P 400	3.7%	33.4%
Russell 2000	2.5%	36.3%
Russell 3000	4.2%	29.0%
MSCI World (ex U.S.) (USD)	3.4%	25.5%
MSCI Emerging Markets (USD)	4.9%	6.9%

### Growth/Value (Source: Bloomberg)

	Oct	12-mo.
S&P 500 Growth	4.8%	26.2%
S&P 500 Value	4.4%	28.3%
S&P 400 Growth	3.2%	31.3%
S&P 400 Value	4.2%	35.6%
Russell 2000 Growth	1.8%	39.9%
Russell 2000 Value	3.3%	32.8%

One hundred and ten out of the 132 subsectors (83%) that comprise the S&P 500 posted a gain in October, down slightly from 113 (86%) last month, according to S&P Dow Jones Indices. Telecom. Services was the best performing sector, up 8.43%. In October, the dividend-payers (419) in the S&P 500 (equal weight) posted a total return of 4.75%, vs. 2.68% for the non-payers (81), according to Standard & Poor's. Y-T-D, the payers were up 28.13%, vs. a gain of 34.10% for the non-payers. For the 12-month period ended October, payers were up 31.89%, vs. a gain of 43.22% for the non-payers. The number of dividend increases y-t-d through October totaled 310, up from 274 at this point a year ago. Twelve dividends were cut, compared to nine at this point a year ago. Stocks performed very well in September and October, two months that have historically been challenging. The S&P 500 rose 7.8% over the two-month span. Since 1950, the historical return would have been closer to flat, according to data from the *Stock Trader's Almanac*. From 1926 through 2012, the S&P 500 posted an average annual total return of 9.8%, according to Ibbotson Associates/Morningstar. Over that 87 calendar year period, the index posted a positive total return in 63 of them, or 72.4% of the time. The S&P 500 has only posted a negative annual total return seven times since 1975.

<b>U.S. Dollar Index (DXY)</b> <b>-0.03%</b> (Oct) +0.53% (YTD) \$ was down 0.5% in '12	<b>CBOE Total Equity Options</b> (# of contracts in millions) Oct: <b>46.0</b> (+28.9%) Sep: 35.7 (-4.3%) Record 7/08: 67.2 million	<b>Short Interest (NYSE)</b> Oct 15: <b>13.8B</b> (-1.4%) Sep 13: 14.0B (+2.2%) Record 7/08: 18.61 billion shares	<b>VIX Volatility Index (S&amp;P 500)</b> <b>13.75</b> (10/31) 16.60 (9/30) Record 11/20/08: 80.86
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## The Bond Market

### Index (Source: Barclays)

	Oct	12-mo.	Yield
U.S. Treasury: Intermediate	0.38%	-0.31%	0.92%
GNMA 30 Year	0.77%	-0.84%	3.10%
Municipal Bond (22+)	1.02%	-4.64%	4.70%
U.S. Aggregate	0.81%	-1.08%	2.25%
Intermediate Corporate	1.12%	0.60%	2.39%
U.S. Corporate High Yield	2.51%	8.87%	5.64%
Global Aggregate	0.98%	-1.54%	1.95%
EM Hard Currency Agg.	2.15%	0.04%	4.74%

The yield on the benchmark 10-Year T-Note declined by 5 basis points to 2.56% in October, but was up 87 basis points from a year ago. All of the major bond categories performed relatively well in October (see chart). Investors pushed bond prices higher on the belief that the Federal Reserve would likely hold off on implementing its tapering plans until at least Q1'14. The yield on the 10-Year T-Note had spiked up to 3.00% back on 9/5/13, when it was thought that the Fed would begin tapering in September. Regardless, the seed for higher interest rates has been planted. Demand for securities potentially better suited for a rising interest rate climate is growing. Dealogic reported that convertible bond issuance totaled \$25.8 billion in the first nine months of '13, up more than 70% from the same period a year ago, according to *Kiplinger*.

Key Rates as of October 31		Key Yield Spread		2013 Debt Issuance Through September		
		The spread between the Merrill Lynch U.S. High Yield Constrained Index and the 10-Yr. T-Note was 381 basis points on 10/31/13, down from 419 on 9/30/13. It was 538 on 10/31/12.		(Source: Thomson Reuters)		
				Debt Category	\$ Amount	% change over '12
Fed Funds	0-0.25%			Treasury	\$1.62 Trillion	-3.1%
2-Yr. T-Note	0.31%			Corporate	\$1.07 Trillion	+7.6%
10-Yr. T-Note	2.56%			Convertible	\$21.6 Billion	+51.8%
30-Yr. Mortgage	4.15%			Asset-Backed	\$142.5 Billion	-7.8%
Bond Buyer 40	5.09%			Municipal	\$251.1 Billion	-10.9%
(Source: Bloomberg)		(Source: Bloomberg)				

Equity funds reported net *inflows* totaling \$2.8 billion in 9/13, vs. \$7.1 billion (revised up) of net *inflows* in 8/13, according to the Investment Company Institute. Bond funds reported net *outflows* totaling \$11.3 billion, vs. \$29.1 billion (revised down) of net *outflows* in 8/13. Money Market fund net *inflows* totaled \$45.6 billion, vs. \$19.9 billion (revised up) of net *inflows* in 8/13. Year-to-date through September, equity funds reported net *inflows* totaling \$113.6 billion, vs. \$23.9 billion of net *outflows* for bond funds (municipals had net *outflows* totaling \$38.6B) and \$22.0 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	1771.95	10/29/13	676.53	03/09/09	1756.54	-0.87%	25.30%	2.02%
S&P 500 Growth	946.67	10/29/13	363.99	03/09/09	939.30	-0.78%	25.18%	1.74%
S&P 500 Value	836.19	07/13/07	307.16	03/09/09	808.15	-3.35%	25.42%	2.34%
S&P 400	1299.79	10/29/13	404.62	03/09/09	1289.18	-0.82%	27.78%	1.56%
S&P 400 Growth	585.43	10/22/13	174.44	11/20/08	581.00	-0.76%	26.34%	1.20%
S&P 400 Value	453.65	10/29/13	144.98	03/09/09	449.63	-0.89%	29.24%	1.92%
S&P 100	789.61	10/29/13	322.13	03/09/09	783.39	-0.79%	23.48%	2.19%
DJIA	15680.35	10/29/13	6547.05	03/09/09	15545.75	-0.86%	21.02%	2.16%
NASDAQ 100	3391.75	10/29/13	1036.51	11/20/08	3377.73	-0.41%	28.34%	1.44%
Russell 2000	1121.07	10/29/13	343.26	03/09/09	1100.15	-1.87%	30.89%	1.60%
Russell 2000 Growth	662.10	10/29/13	190.73	03/09/09	648.57	-2.04%	34.88%	0.96%
Russell 2000 Value	1438.85	10/29/13	469.32	03/09/09	1414.70	-1.68%	27.07%	2.23%
Russell 3000	1063.29	10/29/13	389.61	03/09/09	1053.30	-0.94%	26.46%	1.94%
MSCI World x U.S. (USD)	5379.90	10/31/07	2131.84	03/09/09	5049.46	-6.14%	18.50%	3.09%
MSCI Emerging Markets (USD)	473.36	10/29/07	128.68	11/24/03	422.70	-10.70%	0.29%	2.62%
Bovespa/Brazil (USD)	44638.24	05/19/08	5634.22	05/10/04	24639.51	-44.80%	-17.42%	3.89%
RTS/Russia (USD)	2487.92	05/19/08	480.65	11/19/03	1480.42	-40.50%	0.69%	1.55%
Bombay SE 500/India (USD)	226.04	01/07/08	39.16	05/17/04	124.51	-44.92%	-8.29%	1.53%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	351.44	-56.63%	-0.54%	2.96%
KOSPI/South Korea (USD)	2.29	10/31/07	0.62	05/17/04	1.91	-16.51%	2.78%	1.15%
Hang Seng (USD)	4082.25	10/30/07	1406.13	05/17/04	2993.13	-26.68%	5.98%	3.32%
MSCI Euro (USD)	1988.53	10/31/07	680.91	03/09/09	1322.50	-33.49%	25.05%	3.44%
S&P Consumer Discretionary	503.61	10/29/13	125.72	03/09/09	502.39	-0.24%	35.13%	1.39%
S&P Consumer Staples	441.29	10/29/13	199.80	03/09/09	435.38	-1.34%	23.46%	2.85%
S&P Energy	668.81	05/20/08	193.04	11/21/03	629.49	-5.88%	20.22%	2.14%
S&P Utilities	223.91	12/10/07	107.56	11/18/03	196.78	-12.12%	14.35%	3.93%
S&P Financials	509.55	02/20/07	81.74	03/06/09	276.82	-45.67%	26.95%	1.72%
S&P Banks	414.38	02/20/07	49.02	03/05/09	195.66	-52.78%	26.24%	2.29%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	537.63	-20.53%	7.49%	3.62%
S&P Health Care	616.64	10/29/13	252.84	03/05/09	610.66	-0.97%	33.99%	1.70%
S&P Pharmaceuticals	476.66	10/29/13	214.50	03/03/09	471.03	-1.18%	29.35%	2.74%
NYSE Arca Biotechnology	2246.78	09/18/13	437.29	11/11/03	2163.74	-3.70%	39.96%	0.15%
S&P Information Technology	545.93	10/29/13	198.51	11/20/08	542.63	-0.60%	18.61%	1.62%
Philadelphia Semiconductor	560.65	01/12/04	171.32	11/20/08	507.09	-9.55%	33.95%	2.14%
S&P Telecom Services	181.06	05/31/07	88.10	03/09/09	160.27	-11.48%	14.70%	4.55%
S&P Industrials	422.71	10/29/13	132.83	03/09/09	420.92	-0.42%	30.26%	1.97%
S&P Materials	285.91	05/16/08	108.33	03/02/09	275.90	-3.50%	18.29%	2.59%
Philadelphia Gold & Silver	228.95	04/08/11	64.36	10/27/08	95.07	-58.48%	-41.43%	2.79%
Reuters/Jefferies CRB	473.52	07/02/08	200.34	03/02/09	277.86	-41.32%	-5.81%	N/A
Merrill Lynch Perpetual Preferred	197.97	05/08/13	51.79	03/09/09	185.41	-6.34%	-1.28%	5.98%
Merrill Lynch High Yield Constrained	334.84	10/31/13	130.37	12/12/08	334.84	0.00%	6.33%	6.37%