MassMutual FINANCIAL GROUP | MassMutual Funds

Monthly Market Overview

November 9, 2015

Market Overview

Equity markets posted solid positive returns to start November. Growth stocks largely outperformed value stocks, except in the large-cap arena, where a rally in financials and energy gave value stocks the edge over growth counterparts for the week. Investors took the strong employment data released on Friday as reason to become more optimistic about a potential Federal Reserve (Fed) interest rate hike and its likely positive effect on companies in the financials sector. Growth stocks overall benefited from strength in information technology, and a substantial rally in small-company healthcare stocks drove small-cap growth equities to a 3.66% gain. On the back of the healthcare rally in small caps, the Russell 2000 was the top performing index by far, while the technology- and healthcare-heavy NASDAQ Composite topped other large-cap indexes for the week. International equities were the week's worst performer and barely managed to hang in positive territory for 2015 thus far.

The fixed-income market continued its decline, as investors turned their sights toward the increasing likelihood of a Fed rate increase. Corporate bonds held up better than treasuries while shorter dated issues held up better than longer dated. The yield of the benchmark 10-year U.S. Treasury note rose 0.18% to 2.32% after opening the week at 2.14%. Yields continued to increase from their early October lows, with Friday's robust jobs report contributing to short-term Treasury yields spiking to their highest levels in five years.

In commodities, West Texas Intermediate (WTI) crude oil declined modestly to $44.29 per barrel at the end of the week from $46.43 at the end of October. The EIA Petroleum Status Report that came out during the week indicated strong end demand for petroleum products is draining inventories of finished product; however, crude inventories continue to build. Gold closed the week at $1,087.70 per troy ounce, down $53.60 from the week's opening price of $1,141.30.

Returns of Major Indexes

	Week Ended November 6, 2015	Year-to-Date 2015
Dow Jones Industrial Average℠ (1)	1.52%	2.58%
S&P 500® Index (2)	1.02%	3.76%
NASDAQ Composite® Index (3)	1.92%	9.74%
Russell 2000® Index (4)	3.29%	0.68%
MSCI® EAFE® Index (5)	-1.54%	0.56%
Barclays U.S. Aggregate Bond Index (6)	-0.80%	0.34%

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Key Business and Economic Events

Institute for Supply Management (ISM) Manufacturing Index

Manufacturing in the U.S. continues to skirt contraction, with the ISM finishing at 50.1 for October after posting a 50.2 and 51.1 in the prior two months. A figure below 50 indicates contraction for the manufacturing sector and below 43 indicates the economy could be in recession. A deep contraction to 42.5 in new orders helped drive the overall figure down. Prices also continued their long run of contraction, posting a 39.0 figure. Employment and exports also placed downward pressure on the index, resulting in readings of 47.6 and 47.5 respectively. On the positive side, new orders and production were both positive at 52.9. Analyst estimates called for a 50.0 overall reading in the index, and this week's 50.1 was in line and pointed to little change in the manufacturing sector.

Motor Vehicle Sales

Automobile consumers came to buy in October. Domestic and total vehicle sales both finished greater than the upper range of consensus estimates, with total vehicle sales reaching a 12 year high of 18.2 million. Sales of imported light trucks were the big driver of sales, increasing by 200,000 units from September to 3.7 million. Sales of vehicles made in North American fell slightly in the month to 14.5 million, but are still greater than the consensus estimate of 14.1 million. The overall sales number points to the continued strength and confidence of the American consumer; however, the failure of sales to increase meaningfully from September's levels limits the ability of motor vehicle sales to substantially contribute to an increase in the October retail sales report.

International Trade

The U.S. trade deficit figures were within consensus estimates for September at $40.8 billion, with August's unusually large deficit revised lower. The trade figures were driven by a deficit in goods of $60.3 billion, which was offset by a surplus of $19.5 billion in services. Exports inched up 1.6% in the month, led by consumer goods, including artwork and jewelry. An increase in the export of capital goods also served to narrow the deficit slightly, as did a decline in imports. The increase in exports was positive and occurred despite the ongoing strength of the U.S. dollar continuing to make U.S. goods more expensive overseas. The dip in imports is good for the calculation of U.S. gross domestic product (GDP), but is not a positive indication of domestic demand – especially given the strong dollar.

Employment

Jobless claims unexpectedly rose during the week, but have had a favorable downward trend in recent periods and still remain low at 276,000. Despite the uptick in claims, Nonfarm payrolls posted a surprising gain of 271,000 in October, driving the unemployment rate down to its lowest rate in more than seven years to 5.0%. Private payrolls increased by 268,000, well above the 174,000 estimate. The U-6 unemployment rate, which includes workers that are discouraged and those working part-time for purely economic reasons, declined to 9.8% - its lowest level since May 2008. Year-over-year earnings rose 2.5%, the highest figure since July 2009. Even the manufacturing sector, facing headwinds from falling exports due to a strong dollar, posted encouraging employment results, with hours edging higher to 40.7 and overtime increasing to 3.3 hours. The strength of the employment report was the week's biggest news and seems to provide a strong case for the Fed to commence its long-anticipated increase of interest rates at the December meeting, provided the next release of the employment report doesn't contradict the current one.

The Upcoming Week

The upcoming week is expected to be fairly quiet from an economic news standpoint. Americans will honor and remember their armed forces veterans on Wednesday. Thursday brings the jobless claims report, for which the current consensus expects a decrease in job claims of 10,000. The Friday release of the Producer Price Index Final Demand (PPI-FD) offers insight on inflation at the producer level, and the current consensus expectation is for a slight increase in prices after last month's modest decline. New data covering retail sales is also due out Friday, providing further insight to the overall health of the consumer along with the Consumer Sentiment Report.

(1) Price-weighted average of 30 actively traded Blue Chip stocks, primarily industrials, but also including other service-oriented firms; may be used as a benchmark for large cap stocks. (2) Widely recognized, unmanaged index representative of common stocks of larger capitalized U.S. companies. (3) Broad-based index of over 5000 companies, which measure all domestic, and non-U.S. based common stocks listed on the NASDAQ Stock Market, Inc. (4) Unmanaged index representing the performance of small-cap U.S. stocks. (5) Unmanaged index consisting of approximately 1,200 stocks in developed market countries outside of North and South America, and represents approximately 85% of the total market capitalization in those countries. (6) Unmanaged index of fixed rate investment grade securities with at least one year to maturity combining the Barclays U.S. Treasury Bond Index, the Barclays U.S. Government-Related Bond Index, the Barclays U.S. Corporate Bond Index, and the Barclays U.S. Securitized Bond Index.

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