MONTHLY MARKET RECAP

INSIGHTS FROM THRIVENT ASSET MANAGEMENT

A TALE OF TWO MARKETS

Recap for the month ended October 31, 2014

By Jeff Branstad, CFA

The first half of October felt like the worst of times for equity investors until markets did a complete one-eighty turnaround to finish the month on a very strong rally. Here is a look at market details for October 2014:

BY THE NUMBERS

Market activity in October, as reflected in the most common market indexes we follow.

Equity Indexes*	1-Month	YTD	2013
Dow Jones Industrial Average[1]	2.2%	6.9%	29.7%
S&P 500 Index[2]	2.4%	11.0%	32.4%
Russell 2000 Index[3]	6.6%	1.9%	38.9%
MSCI EAFE Index[4]	-1.5%	-2.4%	23.3%
MSCI Emerging Markets Index[5]	1.2%	4.0%	-2.3%

Bond Indexes*	1-Month	YTD	2013
Barclays U.S. Aggregate Bond Index[6]	1.0%	5.1%	-2.0%
Barclays 20+ Year Treasury Index[7]	2.9%	20.0%	-13.9%
Barclays U.S. Corporate Investment Grade Index[8]	1.0%	6.7%	-1.5%
Barclays U.S. High Yield Index[9]	1.2%	4.7%	7.4%
Barclays Municipal Bond Index[10]	0.7%	8.3%	-2.6%

* Past performance is not indicative of future results. An investment cannot be made directly in an index.

U.S. Treasury Yields	As of 10/31/2014	As of 9/30/2014	As of 12/31/2013
3-Month U.S. Treasury Bill	0.01%	0.02%	0.07%
5 Year U.S. Treasury Bond	1.62%	1.78%	1.75%
10 Year U.S. Treasury Bond	2.32%	2.52%	3.04%
30 Year U.S. Treasury Bond	3.04%	3.21%	3.96%

DOMESTIC EQUITIES BOTTOM OUT, THEN BOUNCE BACK TO ALL-TIME HIGHS

October began with a continuation of the previous month's downward slide, as the S&P 500 Index fell an additional -5.5%, dropping to its lowest level since April, bottoming out on October 15th. However, as rapidly as the index had dropped (-7.2% in less than a month), it climbed back to all-time highs even more quickly, jumping 8.4% in a little over two weeks. Small cap stocks, as represented by the Russell 2000 Index, had a longer, deeper decline but an even faster recovery. That index fell just over 11% since the beginning of July, regaining most of that in the second half of October, rising 9.5% up from its mid-October low.

After a long smooth multi-year bull market, investors were shaken out of their complacency by several factors. Many investors, and perhaps even more market commentators, forgetting about the natural volatility of equity markets, overreacted to fears about Ebola, a struggling European economy and a possibly early rise in interest rates. However, better than expected earnings helped turn domestic stocks around before the S&P 500 was able to reach the 10% decline needed to meet the technical definition of a correction. Over half of the companies in the S&P 500 have reported their quarterly earnings and roughly 75% of them have beaten expectations as companies continue to find efficiencies allowing them to grow earnings faster than sales. Furthermore, global equity markets got a big boost on the last trading day of the month when the Bank of Japan made a surprise announcement that they are expanding their aggressive stimulus plan.

TAPER CONCLUDES AS FED MAKES LAST BOND PURCHASE

While Japan ramps its stimulus up, the U.S. Federal Reserve brought one of its stimulative bond-buying program to a close, making the final round of bond purchases that began in September of 2012. The conclusion of the so-called taper did not bring an immediate jump in interest rates, though, as the 10-year U.S. Treasury Bond yield fell again to 2.32%. While rates have fallen across the board throughout 2014, the yield curve has flattened somewhat with longer-term rates falling more than those at the shorter end. Members of the Fed, including Chairwoman Janet Yellen, have reiterated time and time again that they plan to keep interest rates low for a "considerable time." Many investors are taking that to mean that there will be no rate increases until mid-2016, but Fed officials have included qualifiers based on economic data to either accelerate that timeline if job numbers or inflation move up faster than expected, or wait longer – or potentially even make more asset purchases – if the economy unexpectedly stumbles.

1 The Dow Jones Industrial Average is an index of 30 "blue chip" stocks traded in the U.S.
2 The S&P 500 Index is a widely followed index, and is composed of 500 widely held U.S. stocks
3 The Russell 2000® Index measures performance of small-cap stocks
4 The MSCI EAFE Index measures developed-economy stocks in Europe, Australasia and the Far East
5 The MSCI Emerging Markets Index measures developing-economy stocks
6 The Barclays U.S. Aggregate Bond Index measures performance of a wide variety of publicly traded bonds
7 The Barclays 20+ Year Treasury Index measures performance of longer maturity treasury bonds
8 The Barclays U.S. Corporate Investment Grade Index measures performance of the investment grade bond sector
9 The Barclays High Yield Index measures performance of the high yield bond sector
10 The Barclays Municipal Bond Index measures performance of the municipal bond sector

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