Capstone Comments

A forum for communicating information about the management of assets

Q:

A:

2012 3rd Quarter
What happened to the stock market?

Despite continued economic instability, uncertainty regarding the upcoming Presidential Election, violence in North Africa and unrest in the Middle-East, the S&P 500 posted a positive 6.4% for the quarter and is up 16.4% year to date (By The Numbers, October 1, 2012).

The following are a few of the areas that affected the market during this quarter and may continue to do so for the remainder of the year:

- European Debt: The third quarter saw massive amounts of central bank accommodation, which helped push risk assets higher. The European Central Bank (ECB) announced new asset purchase programs with the ECB focusing on sovereign debt (JP Morgan Asset Management – Market Insights, October 1, 2012).
- Federal Reserve Board: In September, the Federal Reserve announced another round of "large scale asset purchases" when they said they would begin making purchases of $40 billion per month in agency mortgage-backed securities until the labor market shows substantial improvement.
- Economic Growth: There were mixed messages sent during the 3rd quarter as 2nd quarter GDP was revised from 1.7% to 1.3% and durable goods orders fell 13.2% in August. However, consumer sentiment soared to 70.2.
- Housing: The July S&P/Case-Shiller home price reading showed prices increased for the fourth straight month across the nation's 20 largest metro areas. New residential construction is also on the rise, with housing starts increasing 22% over the past year (Capital Market Consultants, Inc. – The CMC Efficient Frontier, October 2012).
- Presidential Election: A recent article in Forbes indicated that "the outcome of this Election in addition to many concurrent congressional races will have a large impact on tax policy, healthcare reform and federal regulations for months and years to come." This has added a great deal of uncertainty for many across the U.S.
- Fiscal Cliff: Unless Congress acts, the U.S. economy faces a mix of tax increases and spending cuts that could cause additional drag. The overall feeling is that something will be done, but the questions remains what and when? This uncertainty could cause additional market volatility towards the end of the 4th quarter.

A "knee jerk" reaction to the Presidential Election is not unusual. However, the solution to a strong economy and U.S. market is less uncertainty in the leadership in Washington. A long term perspective on appropriate diversification of fixed and equity exposure in a portfolio has demonstrated to be a successful strategy as America has persevered through more challenging times than these.

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