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Market Commentary
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Introduction

After a nearly 7 year unabated bull run, equity markets came under significant pressure due to global growth concerns and continued speculation over the first initial Federal Reserve rate hike in over 11 years. After posting modest gains in the first half of the year, equity markets fell over 6% in the third quarter, despite strong U.S.economic data. Unemployment hit its lowest level since the first quarter of 2008, productivity rose at its fastest pace in nearly 2 years and earnings (not counting energy companies) continued to show improvement. Interestingly, the S&P 500 has rallied in 5 out of the last 6 years in the fourth quarter with an average return of 7.27%. With history on our side, coupled with a stronger consumer that has benefited from cheaper oil and a healthy labor market, we expect a strong fourth quarter out of the stock market.

Equities

From March 2009 until June 2015, the S&P 500 had a total return of +212%. The S&P finished the third quarter down -6.41%, bringing the index's total return to -5.25% for the year. In the third quarter, U.S. equity markets experienced their first major correction since 2011, as the S&P fell -12.25% on August 25th from its May 21st high. Historically, market corrections happen every 18 months on average, but this bull market had lasted more than four years without a drawdown of more than 10+%. This served as an important reminder that equity markets don't only go straight up, they are prone to periods of turbulence that are uncomfortable and test investors' patience.

However, we do not believe the recent correction is the introduction to something more serious and the age old mantra remains the same: "time in the market" is more important than "timing the market". Despite the third quarter volatility, earnings expectations for U.S. companies have held up well and retail sales in the U.S. have been increasing, which should lead to improved corporate earnings in the coming quarters. We believe stock valuation is very reasonable and has room to expand further, given the low level of borrowing costs. Volatility is likely to persist until we get more clarity around Fed policy, but over the long-term, we believe it makes sense to have a sizable position in equities.

International Equities

Contrary to the U.S., international markets fared much worse during the quarter and there is no shortage of reasons for investors to be concerned. As China's economy appears to be cooling off and Europe's economic malaise remains unresolved, International developed stocks (MSCI EAFE Index) finished the quarter down -10.12% and Emerging Markets (MSCI EM Index) ended down -17.72%. The quarter started with Greece in a debt standoff against European Union (EU) regulators, with both sides eventually agreeing to terms to keep Greece as a member of the EU.

At the same time, China's economy was called into question as data showed they were growing at a slower pace than projected, bringing volatility to markets across the globe. The reality of the situation in China is that it does not have a large, material impact on the U.S. economy, despite what the media may have you believe. China accounts for only 7% of total American exports, which represents less than 1% of U.S. gross domestic product (GDP),which leads us to believe any economic fallout in the U.S. economy related to China is overstated. Because of the global turmoil, valuations in international markets have become cheaper and we believe a small allocation to international equities is still an important part of a diversified portfolio.

Fixed Income
The highly anticipated September Federal Reserve Meeting turned out to be "much ado about nothing", as Fed Chairman, Janet Yellen, kept rates unchanged, pointing to global economic concerns and low inflation as support for this decision. Interest rates fell on this news, with the 10 year treasury yield going from 2.36% to 2.04% in the third quarter, causing the Barclays Aggregate Bond Index to increase by 1.23%. The Fed's decision to keep rates unchanged came as a slight surprise, as many economists believe the U.S. economy is healthy enough to withstand a 0.25% move in interest rates. Despite the Fed's decision, Yellen reiterated that she expects rates to rise by year-end. Due to this concern, we continue to position our portfolios with a shorter duration by holding short-term bonds, as well as lower interest rate sensitive bonds, such as floating rate and high yield bonds.

Alternatives
With equities falling over 6% during the quarter, alternatives proved beneficial by limiting volatility across our portfolios. The Credit Suisse Hedge Fund Index finished the quarter down -2.43%, while our lower-risk equity-based alternative in the Long/Short Equity space fell only -0.88% and our Market Neutral position finished up +3.09%. Unlike other alternative asset classes, master limited partnerships (MLPs), which store, process and transport oil and natural gas, came under significant pressure, with the Alerian MLP Index down -22.10% for the quarter. MLPs continue to trade in line with oil prices, which fell from $60.44 per barrel to $45.09 during the quarter. Despite the poor performance of the asset class, we believe MLPs are significantly oversold, as they are not directly tied to the price of oil, but rather the demand for it. In fact, more miles have been driven this year than any other time in history and the industry posted strong third quarter earnings. Once oil prices stabilize, we believe MLPs will rebound.

Real Estate
After a harsh winter, the housing market rebounded with its best spring for home sales since the financial crisis. Heading into the summer months, many speculated whether the U.S. economy was strong enough to sustain that momentum. The third quarter validated believers, as the data continued to improve and impress. Home sales, both for new and existing homes, are now up 6.2% in the past year and through August, we are running at the strongest level of new home sales since the first quarter of 2008. New home sales and construction is a great signpost for the economy because as we continue to build more homes, jobs are created, raw materials are consumed, and it adds to total GDP. After years of acting as a drag to overall growth, the housing market has emerged as a key bright spot for the U.S economy and is expanding at a sustainable pace behind a strong U.S. consumer.

Conclusion
We came into this year expecting heightened volatility and the market has not disappointed with the Volatility Index (VIX) hitting its highest level since 2011. Despite the increased volatility, the U.S. is actually the strongest it's been throughout this bull run. We understand that markets can trade away from fundamentals in the short-term, but we believe recent economic data does not support such a sharp sell-off. The U.S. economy is near full employment at 5.1%, inflation is modest and home prices are up over 5%, which all continue to strengthen the U.S. consumer, who represents over 70% of the U.S. GDP. With that said, we continue to position our portfolios with downside protection in mind, investing in uncorrelated asset classes that can withstand the added volatility in the markets.