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Nauset Market Commentary
Third Quarter 2015

Market Performance Recap: **Stocks Sell Off on Growth Worries**

Starting in mid-August the long-anticipated US stock market correction finally occurred. Stocks declined into correction territory (-10% from May highs) due to slower growth in China, Fed uncertainty and continued commodity price weakness. The large cap Russell 1000 fell -6.8% for the quarter, while more significant drops occurred in US small cap stocks, off -11.9%, and international stocks, down -10.2%. Within stock sectors, healthcare, materials and energy suffered the largest declines. Fixed income markets were higher as the Fed postponed any rate hikes to later in the year or possibly into 2016. The Barclays Intermediate Gov't/Credit Index gained +0.9% for Q3.

Economic & Market Discussion: **What Does Slow Global Growth Mean?**

The August sell-off and subsequent volatility were partially blamed on below-average global growth and/or factors connected to slow growth. Let's examine slow global growth, the economic impact and market implications.

- Slow Global Growth: No Longer Waiting for Godot: Since the Great Recession of 2008/2009, global growth rates have not returned to the levels of the early 2000's. Of late most commentators and analysts have stopped looking for breakout growth of 4+% seen in past recoveries and are now projecting global growth rates around 3%. What's behind this shift? Key drivers are lower demand for goods and services due to low wage growth, structural employment changes, aging populations, lower public sector investment, and sluggish consumer borrowing.
- Economic Impact: Dominoes Leaning Not Falling: Corporate earnings growth matters most in the economic-investment chain and they are likely to be tepid for the foreseeable future. Other features we expect are a lower interest rate cycle, lower commodity prices, likely lower inflation, and high unemployment in some non-US regions. These factors are likely to keep global growth on a slow path for several years despite major central bankers' efforts to promote, or in the Fed's case, not choke off, economic activity through stimulative monetary policy.
- Market Expectations: Slow & Choppy– We believe slow global growth will be a driver of all markets, including the US. The result will likely be below-average stock returns. On the positive side, inflation will likely be contained as we expect interest rates to stay low, with some increase as the Fed lifts rates. Volatility, which has re-entered the picture after a long hiatus, may continue as the world adjusts to a new reality that differs from historic boom-bust cycles. We believe it's appropriate to recalibrate expectations to lower returns that may be somewhat offset by tame inflation.

Portfolio Strategy: **Return Opportunities for a Slow Growth World**

Our portfolio strategy is evolving to meet the opportunities of a low, slow growth environment. Two recent changes are 1) Expand holdings whose primary source of expected return is yield, and 2) Use individual securities to complement ETFs and funds to capture specific return opportunities. These two tactics will be incorporated into our managed-risk asset allocation approach to deliver returns.

Market Performance **% Change for Periods Ended 9/30/2015**

Market Index	Third Quarter	2015 YTD	1-Year	3-Year Annual.	5-Year Annual.
Russell 1000	-6.83	-5.24	-0.61	12.66	13.42
MSCI EAFE – Non-US	-10.23	-5.28	-8.66	5.63	3.98
Russell 2000	-11.92	-7.73	1.25	11.02	11.73
MSCI Emerging Markets Equity	-17.90	-15.48	-19.28	-5.27	-3.58
DJ US Real Estate	0.46	-4.75	6.95	7.95	10.72
Bloomberg Commodity	-14.47	-15.80	-25.99	-16.02	-8.89
Barclays Gov't/Credit Interm. Bond	0.95	1.77	2.68	1.45	2.42
IQ Hedge Multi-Strategy	-2.20	-0.92	-0.24	3.12	2.98
3-Month T-Bill	0.01	0.02	0.02	0.04	0.06

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