



Parametric™

Leaders in Structured Portfolio Management

MARKET COMMENTARY

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Domestic

For the first time in over two years, the Federal Reserve did nothing. After seventeen straight interest rate increases, with oil retreating to \$60/barrel and the housing market slowing down, the Federal Open Market Committee twice left interest rates untouched during the third quarter, anticipating a cooling economy would ease the threat of inflation. In response, the S&P 500 Index had its best quarter of the year, up 5.7%. Large-cap stocks were the primary beneficiaries of a moderating Federal Reserve, outperforming mid-cap and small-cap stocks (S&P MidCap 400 Index, -1.1%; S&P SmallCap 600 Index, -0.9%). The best performing sectors in the third quarter were last quarter's worst performers, telecommunications, +10.6%, health care, +10.2% and technology, +8.5%. Energy was the weakest performing sector, -1.7%, as crude oil slid more than 20% from its mid-July highs. Style was not much of a factor, as growth and value performed similarly in the third quarter (S&P 500/Citigroup Growth Index, +6.1%; S&P 500/Citigroup Value Index, +5.3%). While effective in tempering inflation, slowing economic growth does not bode well for the stock market, especially if consumer spending slows. However, forecasts for the coming earnings reporting season are for double-digit profit growth for companies in the S&P 500 Index. With potentially tight Congressional races in the coming November elections thrown into the mix, our broadly diversified, sector-neutral Tax Managed Core portfolios will provide a great opportunity to capture the next market leaders, while doing so in a tax efficient manner.

International

The International Markets showed strength in the third quarter after a volatile second quarter. A combination of falling oil prices and the US Fed's pause in raising the Fed Funds rate helped bolster market sentiment. In this environment, the MSCI EAFE Index returned 3.9% while the emerging markets (MSCI EMF Index) returned 4.9%. Every developed market posted positive returns in the quarter except for a .7% decline in Japan and a 6.2% drop in Norway. While Japan began the quarter with indications of positive business confidence and increasing industrial production, weak machinery orders and a decline in consumer confidence late in the quarter made investors nervous. The major European markets fared better with the UK, Germany and France returning 4.2%, 4.8% and 4.9%, respectively. While industrial production was solid in Germany, it fell in July for the Euro area as a whole due to weak results from France and Italy. On the positive side, annual inflation remained benign. Lower oil prices have benefited the developed markets through lower inflation, allowing central banks the room to lower interest rates should economies slow. However, political instability and risk could move oil prices higher. The biggest challenge for international markets may be the US economy as it deals with the slowdown in its housing market.

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About Parametric

Parametric is the industry-leading provider of structured portfolio management. Founded in 1987 and headquartered in Seattle, Washington, Parametric offers a variety of structured portfolio solutions, including customized core equity portfolios (U.S., Non-U.S., Global Tax-Managed Core™), and overlay portfolio management (OverlayOne™).