Premier Bank Market Review

October 2013

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BANK AT HOME PremierBank

Lights Out in Washington

Recent Economic Indicators

Thomson Reuters/Univ. of Michigan Consumer Sentiment	75.2
Consumer Confidence	79.7
Existing Home Sales, Monthly Change	1.7%
New Home Sales, SAAR*	N/A
Personal Income, Monthly Change	N/A
Personal Consumption Expenditures, Mo Chg	N/A
Non-farm Payroll Increase/Decrease	169,000
Unemployment Rate	7.3%
ISM Non-Manufacturing Index	54.4
ISM Manufacturing Index (PMI)	56.2
New Durable Good Orders, Monthly Change	N/A
Industrial Production, Monthly Change	0.4%
Capacity Utilization	77.8
Retail Sales, Monthly Change	N/A
CPI, Monthly Change, NSA	0.1%
CPI Core, Monthly Change, NSA	0.2%
PPI, Monthly Change, NSA	0.3%
PPI Core, Monthly Change, NSA	0.0%
U.S. Trade Deficit	N/A
Q2 2013 Non-farm Productivity, Qtrly Chg	2.3%
Q2 2013 Real GDP, Quarterly Change, SAAR*	N/A

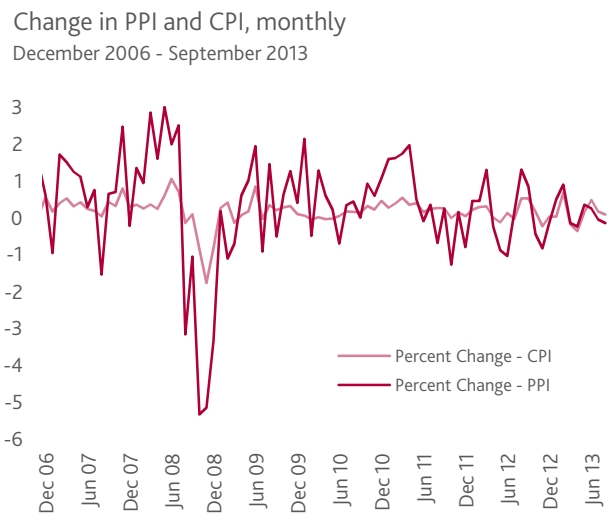
*Seasonally Adjusted Annual Rate
Values reflect most recent data available at the time of publication.
Source: Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, Federal Reserve, Thompson-Reuters University of Michigan, Institute for Supply Management, National Association of Realtors, The Conference Board, U.S. Census Bureau, Bloomberg.

Overview

There was a lot of market moving news surrounding the Fed this month, beginning with Larry Summers' withdrawal from consideration for the Chairmanship. His withdrawal made Janet Yellen the frontrunner, who was later nominated by president Obama to be the first female head of the Federal Reserve. The simple fact that it is not going to be Summers is probably more important as it eliminates widespread concern that monetary policy would take a hawkish turn. This removes a potential headwind for equity and bond prices, and both markets responded favorably to the news. Markets got another boost when the FOMC made an unexpected one-eighty with regards to its policy stance on quantitative easing. The Fed view at the end of July that QE tapering was "likely" to begin "later this year" is now merely a possibility. The timeframe for tapering to be completed by June 2014 seems to have been extended as well. Any future decisions by the Fed are going to be data-dependent, so keeping tabs on incoming economic data will be the best way to gauge the next policy move.

The Federal Government partially shut down on Tuesday, October 1 and remains closed at the time of this writing with the exception of essential services. The deal Republicans want in exchange for raising the debt ceiling includes a package of substantial entitlement reforms, changes to the ACA (Obamacare), and other concessions. To say the Republicans and Democrats are far apart on this is an understatement, and Democrats are pressing their political advantage and refusing to provide the GOP with even the slightest concession to allow them to save a little face and end the shutdown. Republicans are not winning the public relations battle at the moment so we may see some break ranks soon to pass a clean continuing resolution. In the meantime the odds of a technical default where the debt ceiling is not raised before the Treasury runs out of cash are rising quickly.

Source: Federal Reserve Bank of St. Louis



Source: Federal Reserve Bank of St. Louis

Employment

The much-anticipated September employment report was not released on account of the government shutdown, so we will have to rely on other data to gauge the strength of the labor market. The number of Americans filing for first-time unemployment benefits fell a staggering 31,000 to 292,000 for the week ended September 7. It was the first reading below 300,000 since May 2007 and the lowest reading since April 2006, but the Department of Labor reported an administrative issue surrounding the upgrade of computer systems in two states caused fewer claims to be reported and said "the decrease in filings probably didn't signal a change in labor-market conditions." As the month progressed, however, special factors were eliminated and the stabilized data continued to look good. For the week ended September 21 claims fell 5,000 to 305,000 sending a clear message that layoffs are definitely down and the rate of that decline has accelerated. The four-week average continued to breakout to the downside hitting a new recovery-low of 305,000 by month-end – more than 20,000 less than a month ago. Other employment indicators including PMI employment indices and the NFIB's small business employment index are also pointing to improvement in the labor market, which should provide additional support to consumer confidence in the near-term. Furloughed government workers will not be included in future unemployment claims reports but contractors affected by the shutdown will be.

Consumer Confidence & Spending

Consumer confidence declined 2.1 points to 79.7 in September as a decrease in the expectations component pulled the number down. In contrast the present situation component was up 2.3 to 73.2, revealing some strength underneath the headline. The growing contentiousness of the debt ceiling debate is a headwind, but gas price declines are supportive of consumer confidence. Meanwhile Europe is seeing stronger confidence surveys in Germany and France, and Italian confidence hit a two-year high.

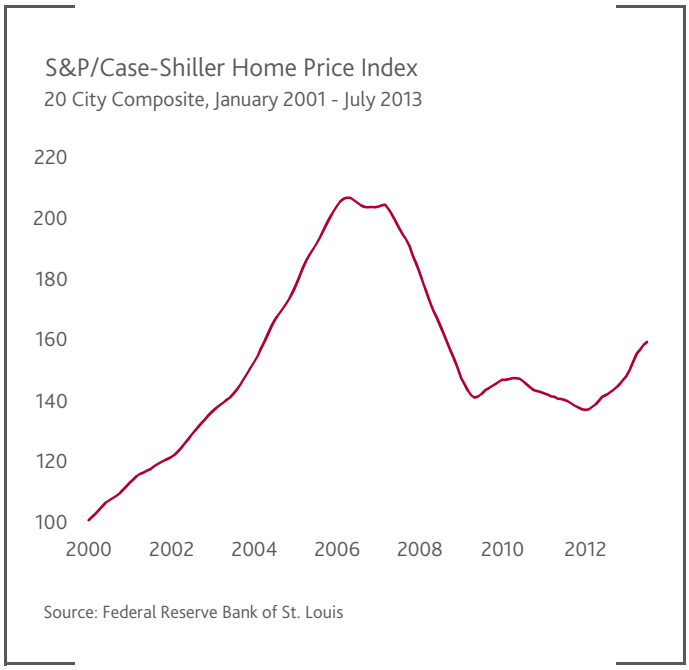
Retails sales on the whole for August were somewhat disappointing, climbing only 0.2% for the month and falling short of expectations. Automobile sales did very well jumping 0.9% during the month, but stripping this out retail sales were basically flat. Spending on home furnishings and electronics & appliances was good, but garden equipment, apparel, and sporting goods were all weak. This divergence paints a picture of a "picky" consumer that is being selective about what they spend their money on. However, recent improvements in consumer confidence and a decline in gasoline futures might help boost sales in September.

Inflation

Prices at the producer level accelerated in August as food costs rose 0.6% and energy was up 0.8%. PPI rose 0.3% at the headline level but the core rate excluding food and energy was flat. Inflation at the consumer level remained tame in August with headline CPI edging up only 0.1% for the month and the year-over-year rate easing to 1.5% from 2.0% in July. Gasoline prices fell throughout the month of September as the summer driving season concluded and tensions in the Middle East subsided. Gasoline futures indicate prices will continue to drop at the pump, which will help CPI remain low and be a boost for consumer confidence.

Business Activity

ISM's manufacturing PMI ended the quarter with another solid report climbing to 56.2. It was the best reading since 2011 where comparisons against softer rates of growth made gains appear more substantial. Growth on the service side of the economy slowed with the non-manufacturing survey falling 4.2 points to 54.4 for the month. Despite this, activity for the third quarter as a whole accelerated which bodes well for GDP growth in the quarter.



Housing

The foreclosure crisis in the U.S. appears to be drawing to a close. The number of new foreclosures filings fell to an eight-year low in August, according to RealtyTrac. Daren Blomquist, vice president at RealtyTrac, said "the foreclosure floodwaters have receded in most parts of the country, although lenders and communities continue to clean up the damage left behind." In another positive sign for the housing market Corelogic reported that 2.5 million less fewer people were underwater on their mortgages at the end of June relative to the previous quarter. 14.5% of mortgage borrowers still owe more than their house is worth, but this is down from a high of 26% at the height of the crisis.

New home sales jumped 7.9% in August to 421,000 but still came up a little short of expectations. The rise was largely attributable to a decline in mortgage rates, which have fallen 38 bps from their recent highs. New homes have been coming to market with inventory up 6,000, but supply still fell to 5 months from 5.2 due to the increase in the rate of sales. Home price appreciation is slowing according to the Case-Shiller 20-city index which rose 0.6% in July, compared with 0.9% in June and 1.7 and 1.9% the two months before that. Pending sales for existing homes fell 1.6% in August pointing to slower demand, but lower mortgage rates should help to extend the housing recovery.

World Economy

One place where inflation is not in check is India which is currently seeing prices rise at a 6.1% annual rate and has seen its currency fall over 13% against the U.S. Dollar so far this year. In an effort to prevent inflation from spiraling out of control, the new governor of the Reserve Bank of India, Raghuram Rajan, made a bold and unexpected move this week by raising interest rates a quarter-point to 7.5%. Rajan, the former chief economist at the International Monetary Fund, seems undeterred by the challenges he faces and the difficult choices he has to make saying "some of the actions I take will not be popular. The governorship of the central bank is not meant to win one votes or Facebook likes." He followed up this move by announcing the Bank's primary inflation gauge will change from the Wholesale Price Index (WPI) to the Consumer Price Index (CPI). This is an important change because policy rates currently indicate positive real interest rates relative to WPI (currently 6.1%) but negative relative to CPI (10.8%). This suggests further rate increases are likely out of India.

Silvio Berlusconi suffered a humiliating defeat in Italy when he ordered his party members to cast a vote of no-confidence against Prime Minister Enrico Letta. About one third of them publicly said they would not, forcing Berlusconi to abandon his bid to topple the government. This is a positive for risky assets in Europe and could finally mark the beginning of the end for Berlusconi's political career.

All Major Fixed Income Markets Post Gains for the Month

Fixed Income Current Yields		9/30/2013
3 Month U.S. T-bill		0.02%
2 Year U.S. Treasury		0.33%
5 Year U.S. Treasury		1.42%
10 Year U.S. Treasury		2.66%
30 Year U.S. Treasury		3.72%
Total Returns	**1 Month**	**YTD**
Barclays U.S. Aggregate	0.95%	-1.89%
Barclays U.S. Govt./Credit	0.80%	-0.81%
Barclays U.S. Municipal Bond	2.15%	-2.87%
Barclays U.S. Corp. High Yield	1.00%	3.91%
Barclays U.S. Long Credit A	0.51%	-8.04%
Barclays U.S. Treasury 20+ Year	0.15%	-11.00%
Barclays Global Aggregate	2.06%	-2.17%
Barclays Emerging Markets	2.26%	-5.24%

1 Month and YTD data as of: 9/30/2013

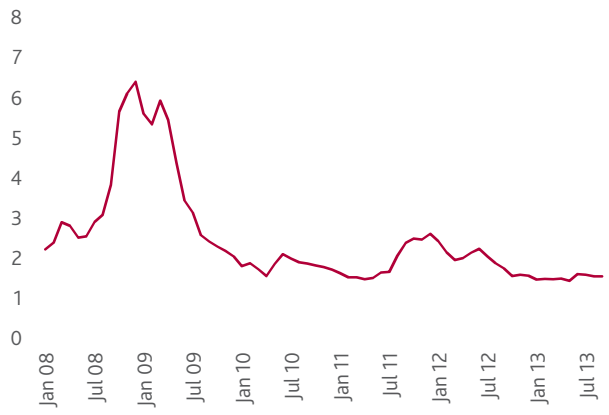
Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc., U.S. Department of the Treasury, Barclays Capital

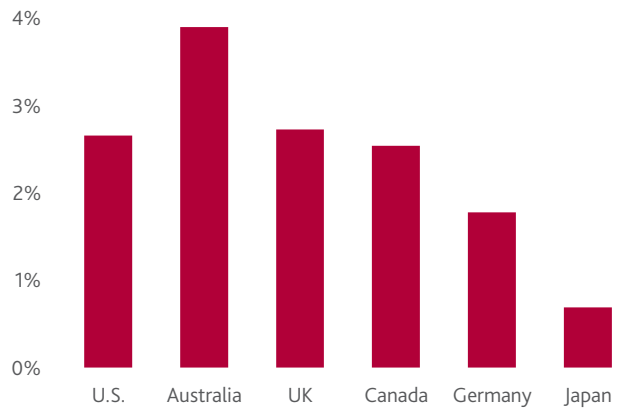
Overview

Riskier asset classes in the bond market showed signs of stabilization as strategists suggested the sell-off over the last two months had been exaggerated. At the same time, U.S. Treasuries finished higher as demand for safe -haven assets increased amid speculation a political standoff over the U.S. budget would lead to a government shutdown. Concerns over the debt ceiling and a technical default have acted as a trigger for many money managers to sell T-Bills maturing closest to the debt ceiling deadline of October 17, using the proceeds to purchase longer maturity securities. This move has caused the short-term yield curve to invert, with a 0.19% yield on the one-month bill and a 0.03% yield on the three-month, the largest inversion since September of 2008.

Looking ahead, the short-term outlook for the fixed-income market has grown clouded due to an announcement from the Fed noting the pace of quantitative easing purchases would be maintained at current levels. However, over the longer term most market participants expect interest rates to rise, as the U.S. economy is likely to normalize within the context of a slow recovery and subdued inflation. Although, the Fed's decision to maintain their existing quantitative easing program at $85 billion in bond purchases per month may have temporarily stalled the move to higher rates, we feel it has done so at the risk of increasing market volatility. As Treasuries remain expensive, in our opinion it is prudent to maintain an underweight exposure to this sector across all durations. The best way to diversify against interest rate exposure is through underappreciated credit opportunities. Compelling prospects exist in certain investment-grade corporate and municipal credits, as the rating agencies' struggle with their methodologies has increased market uncertainty around spread products.

Lastly, despite the Fed's continued buying program, opportunities exist in the mortgage backed security market. While it is becoming more difficult to find attractive options, value can be found in specific securities that possess a combination of a solid underlying structure





(seasoned and short average-life) and expected divergences in the prepayment behavior of homeowners. Although mortgage rates have been historically low, many strategists expect prepayments to remain slow, with subdued refinancings amid tighter lending standards and higher closing costs relative to levels seen three or four years ago. As such, we like GNMA mutual funds and ETFs in thise market environment.

Corporate

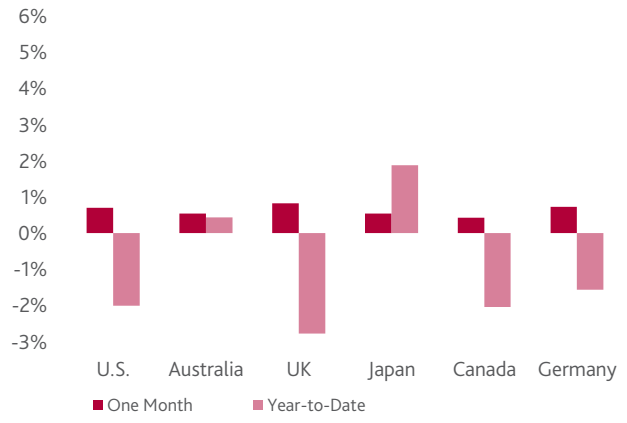
The investment grade corporate sector finished higher, gaining 0.69% and bringing year-to-date returns to -2.62%. With rate volatility likely to remain elevated, managing duration exposure will be critical in this sector going forward. Although we expect the overall effect of rising rates on investment grade spreads to be limited, higher yields should lead to flatter spread curves, as buyers of long-dated paper tend to be more yield focused. At the same time, despite solid investment grade fundamentals, leverage has begun to pick up, which could weigh on valuations. For these reasons, we believe credit selection and curve positioning will be key to generating outperformance in this market. Specifically, we feel a focus on financial sector bonds and lower durations is warranted at this time.

High yield bonds also gained for the month, rising 0.99% and bringing year-to-date returns to 3.73%. Trading in high-yield bonds has slowed to levels not seen since 2008, with volumes dropping by 18% relative to the first half of the year. Investment grade bond trading, although supported by Verizon's record $49 billion sale last month, has also slackened, falling 13% during the same period. Many market participants are now more reluctant to sell high yield bonds due to liquidity concerns as the country's biggest banks continue to trim holdings in the face of higher capital requirements set by the Basel Committee and risk-curbing rules introduced by the Dodd-Frank Act. At the same time, uncertainties regarding tapering of the Fed's bond-buying program have slowed demand for "risk-on" securities. Until these get resolved, strategists expect volume in this sector of the market to remain below average.

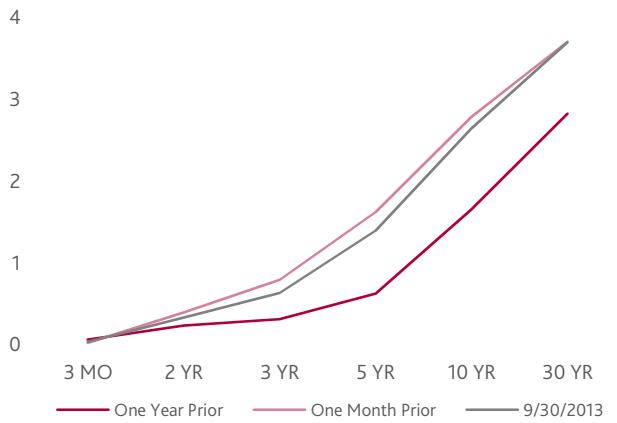
Municipals

After a significant loss last month, the Barclays Municipal Bond index rallied sharply in September gaining 2.15%, the largest monthly gain since January 2012. Municipal bond market volatility remains high as rating agencies have started to revise their evaluation methodologies again. Three years ago Moody's and Fitch Ratings "recalibrated" tens of thousands of municipal bond ratings, arguing a uniform rating scale based on the probability of default would more directly map to other asset classes, specifically corporate bonds. Standard & Poor's, while not formally recalibrating its ratings scale, also implemented several rating criteria methodology changes. Recently, it appears the ratings agencies are once again refining their rating methodologies, now with increasing occurrences of downgrades. In general, there have been no fundamental changes in the risk profile of the affected bonds, but rather a revision in the rating agencies' approach to assessing credit strength. Unfortunately, investors may perceive these downgrades as a new trend of overall weakness in municipal bond fundamentals.

Separately, despite the rally this month in munis, headwinds remain as mutual funds continue to report outflows. Although these issues have the potential to contribute to lower valuations and reduced liquidity in the short-term, we remain optimistic on the long-term outlook for municipal bonds. The combination of attractive valuations relative to other sectors and lower expected supply should provide the impetus for outperformance.



Source: Morningstar, Inc



Source: Federal Reserve Bank of St. Louis

International

The Barclay's Global Treasury ex-US index rose by a robust 2.56% on an unhedged basis, but only gained 0.70% on a local currency basis, consistent with a weaker U.S. dollar against other major currencies. Most major country government bonds posted gains including Canada, France, Germany, the United Kingdom and Australia as investors transitioned back into safe-haven securities. Italian and Spanish bonds once again rose for the month, bringing year-to-dates returns to 3.40% and 8.85% respectively amid better than expected economic growth in these areas.

Meanwhile, some of the countries hardest hit by capital outflows since the Fed first hinted at tapering in June recovered;, emerging market currencies rallyiedng after months of weakness. Local currency Thai bonds posted their biggest sales since 2010 after global funds bought $1.2 billion of the country's debt. At the same time, Mexico's peso denominated bonds outpaced the broader emerging market average with yields falling by 0.34%.

Finally, ECB president Draghi said he is ready to deploy another long-term refinancing operation to provide funds to Europe's banking system if needed. "We are ready to use any instrument, including another LTRO if needed, to maintain the short-term money markets at the level that is warranted by our assessment of inflation in the medium term," Draghi said in response to questions from lawmakers in the European Parliament. At the same time, in a sign the ECB remains committed to keeping short-term rates in check and borrowing language from the U.S. Federal Reserve, they also issued forward guidance noting interest rates will stay low for "an extended period."

Strategies for a Steep Yield Curve and Low Short-Term Interest Rates

Over the past several months, the spread between two- and 10-year Treasuries has widened to near record-high levels. The steep curve is a result of the Federal Reserve keeping short-term rates anchored near zero paired with record-high levels of Treasury auctions pushing long-term rates higher. With a steep yield curve, investors should not avoid committing to longer maturities simply because rates are expected to rise, as the opportunity costs could be considerable. From a total return perspective, we believe the extra pick-up in yield should offset the risk potential in principal when rates begin to increase.

On the short-end of the curve, investors need to strike a balance between the near-zero returns on near-term bonds and the interest rate risk of slightly longer maturities. Barring unforeseen market events, the steepness in the yield curve provides an opportunity for investors holding short-term maturities to increase portfolio yield with a negligible increase in risk. In a strategy known as "rolling the curve", a bond is held for a period of time as it appreciates in price and is sold before maturity to realize a gain. Given a bond approaching maturity is valued at successively lower yields, the potential gains from the "roll" could offset the price declines in a rising rate environment.

Stocks Rebound in September

Total Returns	1 Month	YTD
Dow Jones Industrial Average	2.27%	17.64%
S&P 500	3.14%	19.79%
NASDAQ Composite	5.14%	26.12%
S&P 100	2.49%	17.72%
S&P 400 MidCap	5.21%	23.23%
S&P 600 SmallCap	6.23%	28.66%
Russell 2000	6.38%	27.69%
MSCI EAFE	7.42%	16.59%
MSCI EAFE Small Cap	8.99%	22.41%
MSCI Emerging Markets	6.53%	-4.05%

1 Month and YTD data as of: 9/30/2013

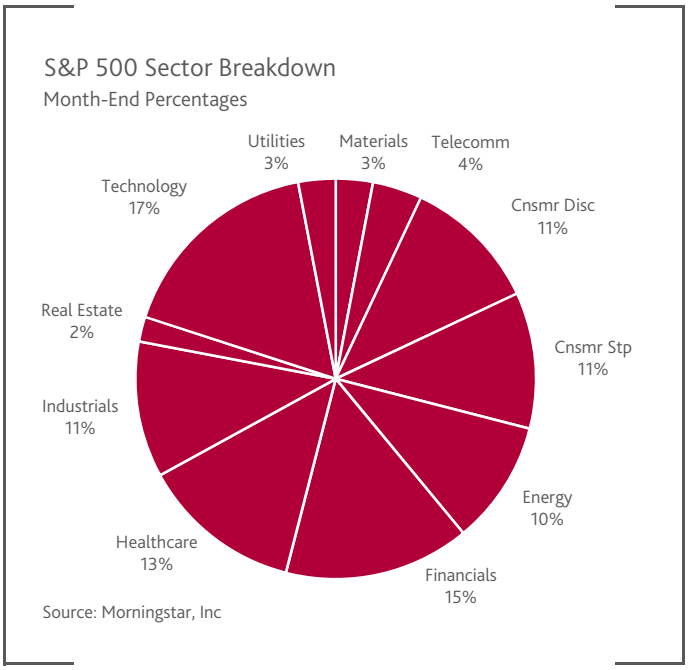
Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc.

Overview

Major U.S. and international equity markets rallied back in September after declines in August. Stocks were positive the first three weeks of the month as fears of retaliation against the chemical weapons attack in Syria subsided. Investors also bid up equity prices on hopes the Fed would delay an end to quantitative easing after the payroll report came in below expectations, but declined the last week on fears of a U.S government shutdown.

The Dow Jones Industrial Average closed out the month of September at 15,129.67, for a total return of 2.3%. The broader S&P 500 Index had a return of 3.4%, finishing at 1,681.55. The NASDAQ Composite Index ended the month at 3,771.48, posting the highest return of the three major indices at 5.1%. In the third quarter, the Dow returned 2.1%, the S&P was up 5.2%, and the NASDAQ rallied 11.1%. Year-to-date through the end of September, the indices returned 19.0%, 19.8%, and 26.1% respectively.

According to FACTSET, the estimated S&P corporate earnings growth rate for third quarter 2013 is 3.0%, less than half of the 6.5% projection at the start of the quarter. All ten sectors have recorded a decline in expected earnings growth since June 30. The Materials sector saw the largest decrease in predicted earnings growth followed by the Energy, Consumer Staples, Consumer Discretionary, and Information Technology sectors. The Financials and Consumer Discretionary sectors are expected to show the highest quarterly growth at 9.1% and 6.6%, respectively. Fourth quarter earnings are estimated to increase 10%, leading to record corporate earnings for the full calendar year. Of note, Standard & Poor's projects Q3 2013 operating margins of 9.64%, which would set a record, replacing the Q3 2007 9.60% margin.



Domestic Equity

The strongest S&P sectors in September were Industrials (+5.7%), Consumer Discretionary (+5.4%) and Materials (+4.4%). Within Industrials, airline stocks Delta (+19.6%) and Southwest (+13.7%) were outperformers. Delta's recent debt reduction efforts and dividend reinstatement were rewarded by being added to the S&P 500 Index. Nike (+15.6%) shareholders reacted positively to news the company was named to the Dow Jones Industrial Average, as well as to very strong quarterly earnings. Whirlpool (+13.8%) and Gannett Co (+12.0%) were also outperformers within the Consumer Discretionary sector. Rising steel prices helped push up stocks of Materials companies such as U.S. Steel Corporation (+15.0%), Allegheny Technologies (+14.3%)and Nucor (+8.6%) in September. Lagging the index were Telecomm Services (-0.5%), Utilities (+1.1%) and Consumer Staples (+1.3%) as defensive sectors fell out of favor. Returns for Materials (+10.3%), Industrials (+8.9%) and Consumer Discretionary (+7.8%) led all sectors in the third quarter as well. Through the first nine months of the year, Consumer Discretionary (+29.1%), Health Care (+28.5%), and Industrials (+23.9%) were the top performers. Trailing far behind were Telecomm Services (+5.7%) and Utilities (+10.1%).

According to Standard & Poor's, small cap equities outperformed both mid cap and large cap equities in the month. The Small Cap 600 Index had a return of 6.2%, better than the returns for both the S&P MidCap 400 Index (+5.2%) and the S&P 500 Index (+3.1%). In the third quarter, small cap equity (+10.7%) returns were higher than both mid cap (+7.5%) and large cap (+5.2%) returns. Similarly, small cap equity (+28.7%) outperformed both mid cap (+23.2%) and large cap (+19.8%) on a year-to-date basis through the end of September.

In the month, growth stocks outperformed value in the large cap and mid cap arena, but trailed value stocks in small cap. For the three month period, growth stocks outperformed value stocks across the market capitalization spectrum. Finally, small cap growth stocks posted the strongest returns year-to-date (+29.7%) through the end of September, while large cap growth equities lagged (+19.4%).

International Equity

Developed international equity indices were also quite strong in September as the MSCI EAFE Index of developed markets returned 7.4% in U.S. dollar terms, outperforming domestic indices. All markets posted positive returns led by New Zealand (+16.2%), Finland (+17.0%), Spain (+14.3%) and Greece (+14.3%). Germany (+8.7%) led all major developed markets, while Japan and France were also both up over 8%. For the first nine months of the year, the developed markets index posted a positive return of 16.6%. The MSCI country index for Japan continued to lead all returns (+24.5%), while other major market indices in France (20.3%) and Germany (+16.8%) were also ahead of the benchmark. The UK (+12.0%) has continued to lag the index.

The MSCI Index for Emerging Markets was also quite strong in September (+6.5%), posting its highest monthly return all year. Country indices in Brazil (+12.4%), Russia (+10.2%) and Turkey (+12.8%) had double digit returns. Stocks in China increased 5.3% while India was up 9.2% for the month. A string of positive economic reports from China helped all emerging markets. Chinese exports increased while inflation remained subdued; retail sales and value-added industrial output accelerated. Bargain hunting helped push stock market indices higher in Russia (+13.9%), China (12.3%), Korea (+14.9%) and Brazil (+8.4%) this past quarter after significant underperformance in the first half of the year. The MSCI Emerging Markets index was still in the red through the first nine months, down 4.1%.

Hedge Funds & REITs End Q3 On a High Note, Commodities Fall

Price Change	1 Month	YTD
Dow Jones UBS Commodity Index	-2.55%	-8.82%
Oil	-5.20%	11.47%
Copper	2.86%	-7.94%
Gold	-4.95%	-20.81%
NAREIT-All REITs	3.55%	2.89%
NAREIT-Industrial/Office	3.27%	3.26%
NAREIT-Residential	2.83%	-1.21%
S&P Global Property Ex-US	7.29%	5.35%
HFRI Emerging Markets Index	0.70%	0.42%
HFRI Fund Wtd Comp. Index	1.36%	4.73%
HFRI Equity Market Neutral	0.61%	3.40%
HFRI Event Driven	1.54%	7.02%
HFRI Market Defensive	-0.63%	-0.80%
HFRI Merger Arbitrage	0.98%	2.47%
HFRI Short Bias	-2.87%	-12.65%

1 Month and YTD data as of: 9/30/2013

Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc.

Overview

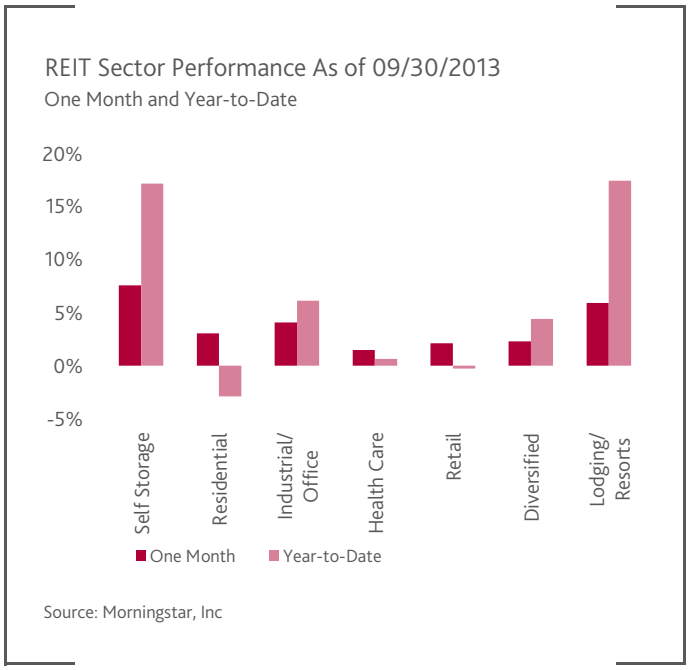
Commodities slipped up in September as the DJ UBS Commodity Index fell 2.55%. Meanwhile, hedge funds and REITs managed to end the third quarter on a high note, up 1.6% and 3.6%, respectively

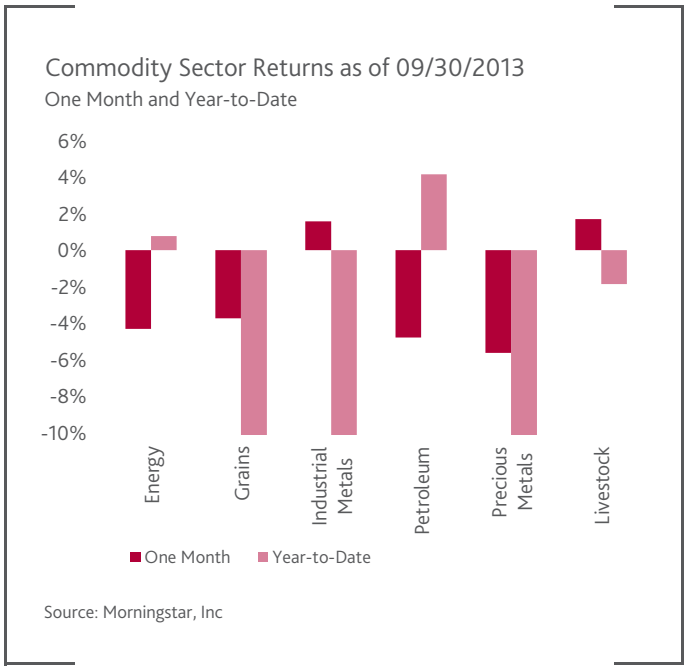
Commodities

Commodities gave up their late summer gains as the DJ UBS Commodity Index fell 2.55% in September while equities rallied. The fear of a government shutdown certainly had an effect on precious metals and energy prices, while the Middle East and U.S. economic themes continue to play a role as well. The DJ UBS Commodity Index has given investors a -8.56% return in the first three quarters of the year and a positive 2.13% in the last quarter.

Crude oil prices finally relaxed after a significant rally during most of 2013. WTI Crude dropped over 5% and Brent fell over 3% to finish September at $103/barrel and $109/barrel, respectively. WTI has closed what once was a significant price gap with Brent Crude, as WTI has gained 11.47% so far in 2013 while Brent prices have risen only 2.8% during that same time period. Oil stockpiles certainly play a role in oil prices, as does refinery demand, but these elements have taken a backseat in 2013 to major economic and political headlines, which are driving the oil market more than ever. In the Middle East, particularly in Libya, Iran, Egypt, and now Syria, concerns about political turmoil and potential supply disruptions have factored into the heightened price of oil. This is especially evident as we witnessed the price of oil drop when the investment news media drastically reduced its coverage of Syria and the Middle East to focus on the U.S. Government shutdown in September.

Precious metals also experienced price weakness in September; Gold fell nearly 5% and Silver dropped by over 7.5% during the month. The FOMC's indecision about tapering of the bond buying program, the government's inability to agree on a budget, and global economic themes have all weighed on the price of precious metals. With so many influences on prices it is difficult to see a clear path





going forward. One thing that is clear, however, is that in the short term gold is not as strongly correlated to financial markets as has been the case in the past.

Agricultural commodities had a favorable September as Sugar prices jumped over 11%. This comes as a surprise as increased Mexican sugar imports have dragged U.S. sugar prices down significantly in 2013. Most agricultural commodity prices are down for the year, many by double digits. Cotton has been one of the only gainers through three quarters of 2013 as U.S. cotton crops have declined.

Hedge Funds

Hedge funds posted strong gains last month, as the U.S. Federal Reserve maintained current bond purchase stimulus measures, while investors prepared for the U.S. government shut down over the budget bill stalemate. The HFRI Fund Weighted Composite Index gained 1.6% in September, the strongest performance since January this year and the second highest gain in the last 19 months, as reported by Hedge Fund Research (HFR). Performance was led by Equity Strategies, with the HFRI Equity Hedge Index posting returns of 2.6%, also the strongest month since January, bringing performance for the first three quarters of 2013 to 9.2%, leading all hedge fund strategy indices. HFR noted that growth areas, including Technology, Healthcare and Emerging Markets, all had strong contributions to performance, with the HFRI EH: Technology/Healthcare Index gaining 4.4% in September, up 17.4% so far year-to-date. The HFRI Emerging Markets Index also rose 3.3% last month. Event Driven strategies also had a strong September as the HFRI Event Driven Index was up 2.0%, primarily due to record corporate bond insurance, successful IPO issuance and increasing investor risk tolerance, according to HFR. Event Driven narrowly trails EH as the leading strategy in the industry, up 9.0% through the end of September. Analysts believe the industry was positioned for the dynamic environment that materialized last month. Kenneth Heinz, president of HFR, states that despite low volatility of the industry relative to equity markets, investors are likely to "continue increasing their exposure to hedge funds as Equity Hedge and Event Driven gains accelerate and investor risk tolerance continues to normalize through the current period of uncertainty."

REITs

September was also a good month for real estate investment trusts (REITs) as the FTSE NARIET All REIT Index saw its total returns climb 3.6%, which beat the broader market, as the S&P 500 was down 3.1%. REITs managed to bounce back from a rough August, but were unable to escape the red for Q3, down 2.39%. For the year though, the industry is up 2.89%. Equity REITs were also up last month, as the FTSE NAREIT All Equity REITs Index rose 3.43% and is now up 3.03% through the end of September. REIT performance last month stood in stark contrast to the months immediately preceding it during which time REITs had underperformed the broad stock market. Historically speaking, usually REITs have outperformed the broad stock market. Analysts point to the notion that even though 2013 hasn't been a spectacular year in the industry, so far, looking at the last 10 years, REIT investors have gotten 9.7% per year in total returns, whereas in the stock market, it has been 7.6%.

September also stood out as it saw gains across almost every property sector and subsector. The Lodging/Resorts and Self-Storage sectors had the highest returns for the month, posting gains of 5.91% and 7.55%, respectively. Industrial/Office REITs rose 4.06% last month, bringing their year-to-date gains to 6.12%. Residential REITs, composed of Apartments and Manufactured Homes, were up 3.05% in September, yet still in the red for the year, down 2.91%. Retail REITs, made up of Shopping Centers and Regional Malls, followed suit, gaining 2.11% last month. Mortgage REITs, which had been declining in recent months as interest rates increased, had a strong showing in September, gaining 3.69%.

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