PRIVATE BANKING INSIGHTS
Market Update

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ARE WE THERE YET?

Every parent has heard that question from their kids while driving to their vacation destination on a beautiful summer day. If constantly repeated, this question can potentially generate some misplaced nervousness at a time when you are supposed to enjoy the summer. My answer was always the same - pretty soon, unless we encounter some kind of accident on the road, but be patient as you will very much enjoy what comes next.

Since we are officially in correction territory (10%+ decline from the recent peak), this question seems to apply to equity markets as well. Are we there yet, have we seen the bottom and is it a good time to add to equity positions right now?

My answer would be very similar to the standard reply I used to give my kids: not yet, but very soon unless something unexpected happens, and you will enjoy what comes next.

THE ELUSIVE GAME OF PREDICTING A BOTTOM

Finding a bottom after a correction is not something that happens overnight, it is a process and it can take several weeks before we can feel comfortable that the damage is behind us and the future is brighter.

Before I continue, let me make sure you all understand that my level of conviction as to when and at which level the final bottom will be reached is not very different than when I tell my friends over in Belgium that The Donald's hair is not fake.

In a nutshell, nobody really knows. But there are a few indicators that one can follow in order to make a more informed judgment. The markets look oversold in the near term but the number of new 52-week lows has not yet reached levels seen at previous bottoms. Markets have also been damaged from a trend perspective, particularly in the US and this development is a bit more worrying as the next level of strong(er) support for the S&P500 is around 1820. My feeling is that we could very well test this support level before the correction is over. Short-term rebounds after several days of large declines are often perceived as selling opportunities for investors who have been caught off-guard and are looking to de-risk their portfolios on any bounce. As such, it takes a while and several rebounds and declines before the selling pressure has finally been exhausted. Watching volumes on up and down days is also important in these circumstances. Looking at the past few major market declines in recent years, we get a similar picture of a few fake rebounds before a final bottom is reached several weeks later. Obviously, history never exactly repeats itself. Otherwise, as Warren Buffet once said, librarians would be the richest people. However, a few other factors provide me with a bit more confidence that we will see further weakness before we are presented with a long-term buying opportunity, probably during the month of October. And once we get there, I believe we will see very strong returns through the end of the year, and possibly reaching new highs.

FACTORS WHICH COULD CAUSE FURTHER SHORT-TERM WEAKNESS

First, seasonality has to be taken into account as we know that September has historically been the worst month for equity markets. The last major correction for the S&P500 also took place in August (that was in 2011, on the heels of the US sovereign rating downgrade and in the midst of the early stages of the Greek crisis). The heavy selling pressure resulted in an interim low in early August but a series of short term rebounds (we had 6 of those) were followed by renewed selling pressure until we reached a final low on October 3rd.

Second, if we look at the main factors broadly cited as responsible for this correction, the reality is that investors are unlikely to feel much more comfortable today than a few days ago. The PBOC did provide some relief by cutting interest rate once again as well as reducing the amount banks need to set aside as reserves but it will take some time before investors' confidence improves when it comes to the Chinese economy or the ramifications of the Yuan devaluation. As far as the Fed goes, we will probably have to wait at least until mid-September and the next FOMC for greater clarity as to whether their assessment of the US economy and its ability to withstand a rate hike has changed on the back of the recent market turbulence.

As is often the case, credit and bond markets will continue to send useful signals. On this front, things seem to be moving in the right direction with bond yields rebounding from extremely low levels and credit spreads stabilizing. But it is too soon to consider that the trend has been reversed. And we will have to wait for the start of the Q3 reporting season (once again in October) to get an update (hopefully a constructive and upbeat one) on corporate profits and the overall health of the corporate sector.

THE BULL IS STILL ALIVE

In a nutshell, and in the very near term, continued caution is still required. As we have noted previously, it is however important to remember that this is just a correction, and not the start of a bear market, and the likelihood of an economic recession is still very remote. In fact, over the past few days, economic data in the U.S., Europe and Japan have actually been relatively strong. As such, the bulk of the adjustment is already behind us and for long-term investors who can withstand short-term volatility, today's levels already present a good buying opportunity, particularly for those investors whose equity exposure is below the level consistent with their long-term objectives.

For those investors willing and able to get into the markets at this juncture, our advice would be to start with European and Japanese equities for all the fundamental reasons we have put forward over the last few months and the additional benefit that the technical picture looks much better than in the U.S. With stocks on sale after rebates anywhere between 10% and 40% from the previous sticker price, valuations have also greatly improved assuming (as we do) that the damage to future earnings will be relatively limited.

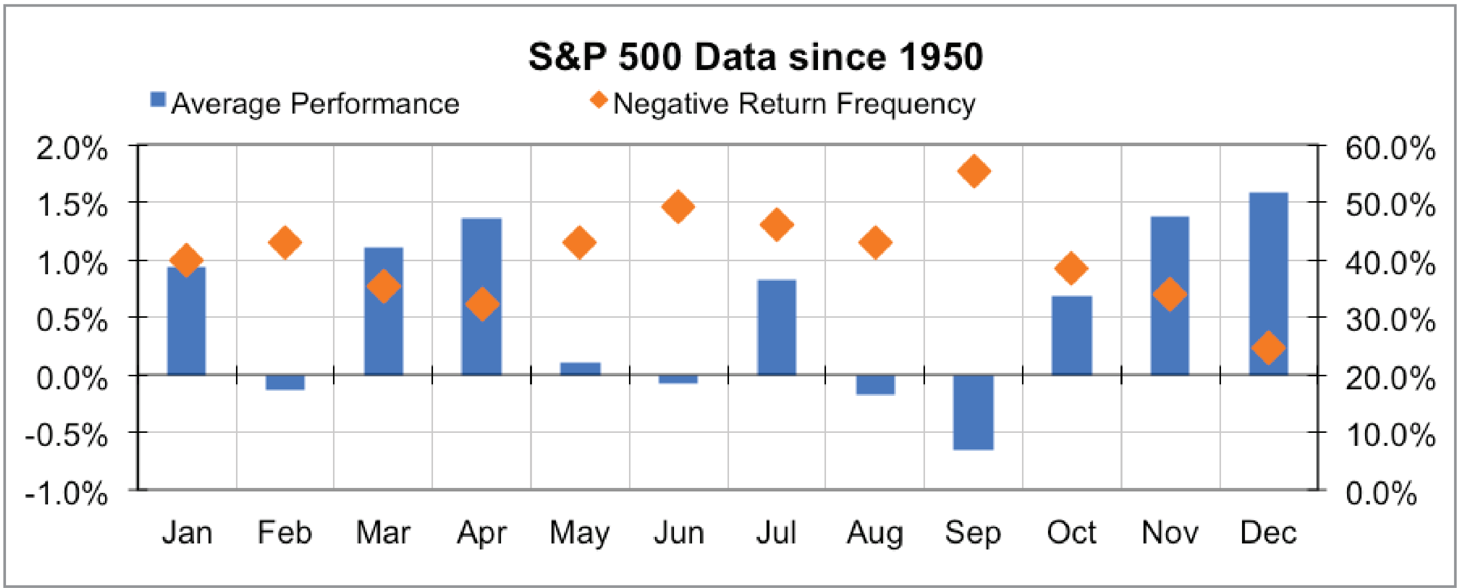
Obviously, investing in equities is never without risk and we will continue to keep a close eye on key factors such as credit spreads, the shape of the yield curve, EM currencies, inflation and leading economic indicators for signs that our basic thesis that we are witnessing a typical correction in a bull market, still holds.

We know the last week has been difficult for clients. Our portfolio manager team has empathy and an understanding of our client needs and risk tolerance during these times of market turbulence.

See charts on page 3 for reference.

FOR MORE INFORMATION CONTACT YOUR WEBSTER PRIVATE BANK PORTFOLIO MANAGER OR EMAIL US AT PBINFO@WEBSTERBANK.COM.

Source for charts: FactSet 08/27/2015



Equity Indices	August	Year-to-Date	Recent Peak	Recent Low	% Drop Peak to Low
USA					
S&P 500	-11.2%	-9.3%	2,131	1,868	-12.4%
DJ Industrial Average	-11.4%	-12.1%	18,312	15,666	-14.4%
NASDAQ-100 Index	-12.5%	-5.2%	4,680	4,016	-14.2%
Russell Midcap	-10.0%	-8.0%	4,488	3,927	-12.5%
Russell 2000	-10.9%	-8.4%	3,220	2,744	-14.8%
International Markets					
International Developed - EAFE	-10.5%	-0.9%	1,127	959	-14.9%
Canada (TSX Composite)	-9.1%	-10.1%	15,451	13,053	-15.5%
Europe (MSCI)	-9.2%	-0.3%	1,593	1,328	-16.6%
Japan (Nikkei 225)	-13.5%	2.0%	20,868	17,807	-14.7%
Australia (ASX)	-9.5%	-4.5%	5,955	5,014	-15.8%
Emerging Markets (MSCI)	-10.2%	-10.7%	54,179	42,476	-21.6%
EM Asia (MSCI)	-11.2%	-12.5%	817	621	-24.0%
EM Latin America (MSCI)	-10.0%	-9.7%	72,756	59,836	-17.8%
EM EMEA (MSCI)	-6.4%	-3.2%	527	443	-15.9%
China (CSI 300)	-20.3%	-13.9%	5,354	3,026	-43.5%
Brazil (Bovespa)	-12.4%	-10.9%	58,052	44,336	-23.6%
MSCI Russia	-4.1%	13.3%	862	736	-14.6%
Russia (RTS)	-11.7%	-4.1%	1,082	725	-33.0%
India (Sensex)	-7.4%	-5.3%	29,682	25,715	-13.4%