ASCENT INVESTMENT ADVISORS

Market Commentary Newsletter
September 2015

Performance Review:

Global REITs were volatile again in September, but finished the month little changed. Sentiment was negative for most of the month as investors focused on continued uncertainty over Federal Reserve policy, slowing growth in China and emerging markets and ongoing weakness in commodities. For most of the summer, investors had expected the first interest rate rise in almost a decade to come at the Fed's September meeting. However, August's extreme global market volatility led to a scaling back of these expectations. Ahead of the meeting, polls suggested analysts were split on the likelihood of a move. The Federal Open Market Committee (FOMC) left interest rates unchanged, citing "recent global economic and financial developments" that might restrain economic activity and put further downward pressure on inflation. At the press conference that followed the meeting, Fed chair Janet Yellen said policymakers were watching for an "unexpectedly abrupt" slowdown in China, but stressed that the majority of the FOMC still expected the first rate rise to come in 2015.

The market response to the decision reflected the uncertainty over the interest rate outlook. U.S. equities briefly rallied, but erased their gains and continued to fall to the end of the month. European markets made steady headway for much of the month before falling sharply in the wake of the decision by the U.S. Fed. Although the lack of action from the Fed was not unexpected, sentiment was undermined by the Fed's cautious assessment of the current state of the global economy.

While U.S. interest rates are still expected to rise this year, European Central Bank (ECB) officials again suggested that eurozone monetary policy could be eased further to support regional growth. Eurozone industrial production rebounded in July with a 0.6% month-on-month rise, while in the UK the unemployment rate fell back to 5.5% from 5.4%. UK wages grew by 2.9% compared to a year ago, while UK productivity continued to show clear signs of improvement.

Japanese stocks struggled, particularly at the end of the month, as investors reacted negatively to the U.S. Fed's cautious remarks regarding the outlook for global growth. Earlier in the month, the Bank of Japan (BoJ) kept Japanese monetary policy on hold and made little change to its economic outlook . With Japan's economy contracting in the second quarter and wage growth disappointing, investors had hoped for some indication from BoJ governor Kuroda that further monetary easing would be implemented. Instead, Kuroda said that he didn't think Japan would fall into a new recession and reiterated his belief that inflationary pressures were building.

In Australia, Malcom Turnbull ousted Tony Abbott as prime minister. Turnbull is seen as more business friendly. However, political volatility had little market impact, as investors focused instead on the U.S. interest rate decision.

In China, industrial production growth for August came in slightly behind expectations, while fixed asset investment slowed. However, retail spending and housing data were better than expected. Retail sales rose 10.8% year-on-year in August, up from 10.5% in July, while housing sales have increased 18.7% so far this year.

Market Outlook:

Base case expectations are for moderate growth, with global GDP within a 2%-4% range. Pent-up private sector demand, fading fiscal austerity and a moderate pick-up in job and income growth remain the main drivers of global economic growth. Despite the Fed's inclination to raise rates, global monetary policy remains uniformly accommodative.

The Fed's inaction in September casts doubt on their timeline to lift-off, and on the path of interest rates thereafter. Under the Fed's old guidance, a falling unemployment rate was supposed to trigger the first rate rise and put the Fed on a path of 0.25% increases at roughly every second meeting. Now though, it is clear that both the initiation and the pace of tightening will also depend on global growth and financial market stability, which the Fed has little power to influence and even less ability to forecast. This being the case, it is quite possible that some other event will occur between now and the end of the year to postpone a lift-off in rates until 2016, and that Fed tightening could easily stall after it has started due to another temporary bout of market volatility.

For U.S. equity markets, investors are more bearish today than at any time since 2000. This pessimism, a contrarian indicator that often presages a market advance, supports our view that global REITs remain in a long-term bull market. Compared to U.S. REITs, European stocks offer better upside potential, with less demanding valuations on trough earnings, a cyclical recovery in place and plenty of ECB stimulus.

In China, the risk remains that Beijing will once again devalue its currency, potentially triggering a destabilizing trade war. Countering that possibility is the realization by government officials that little would be gained by such a move, as they are wary of competitive devaluations by their neighbors. A possible upside to China's economic deceleration may be further government stimulus, perhaps leading to improved economic activity and a rally in Hong Kong-listed property companies.

U.S. equities are likely to struggle until it becomes more clear that China's economy will stabilize and the Fed will start lifting rates. The good news is that we expect both of these to happen, but another risk lies on the horizon. The possibility of another U.S. government shutdown looms, and John Boehner's decision to resign likely increases the odds of a standoff over the debt ceiling. The current continuing resolution should keep the government funded only through December 11, when the debt ceiling will need to be raised. This is an issue that could drive market volatility higher. For now, the main focus for investors continues to be Fed policy. We think we'll need to see clear indications from the Fed that it will begin moving rates higher for equities to sustain a rally. The delay in starting an increase cycle acts as a headwind for equities since it increases uncertainty and could force the Fed into tightening at a faster pace than it wants to. Financial markets may remain choppy for some time, but we expect investors will eventually return to focusing on fundamentals, which should benefit global REITs.

With global central bankers still willing to provide support until job creation broadens and growth becomes self-sustaining, we believe the bull case for global REITs remains intact. We repeat our mantra that we continue to see commercial real estate, and by extension global REITs, as in the middle stages of a long-term bull market predicated on the “goldilocks scenario.” Despite the length of the current bull market, we remain focused on the truism that bull markets don't die of old age, they die of excesses. For real estate, that means excess new supply from development, which continues to be muted and below the rate of demolition of old, obsolete space. Gains will be tougher to come by which means that selectivity and stock-picking have become increasingly important.

We also note that the only scenario wherein the Fed would begin to actually tighten is a scenario of sustainable economic growth — which is also inherently bullish for commercial real estate fundamentals, thus offsetting much of the negative impact of higher interest rates. We expect there will be occasional corrections as equities adjust to higher rates, but we intend to use those pullbacks to add to growth-oriented REITs, particularly in Europe and Asia-Pac.

DEFINITIONS

Federal Open Market Committee (FOMC): The branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC meets eight times per year to set key interest rates, such as the discount rate, and to decide whether to increase or decrease the money supply, which the Fed does by buying and selling government securities.

ASCENT INVESTMENT ADVISORS

Market Commentary Newsletter
September 2015

About the Author, ANDREW J. DUFFY, CFA:

Andrew Duffy is the President of Ascent Investment Advisors, LLC and the Senior Portfolio Manager of the Global Real Estate Investments Fund (JAREX / JACRX / JARIX), a mutual fund that invests in publicly traded global REIT securities. Mr. Duffy has more than 20 years of global real estate securities investment experience.

Prior to joining Ascent Investment Advisors, Mr. Duffy was a Managing Director with Citigroup Principal Strategies, where he managed a long/short portfolio of global real estate securities. From February 2005 until January 2008 he was with Hunter Global Investors, L.P. where he was the Co-Portfolio Manager of the Hunter Global Real Estate Fund, LP. Before that he was a portfolio manager at TIAA-CREF for over six years, during which time he was directly responsible for managing over $3 billion in global real estate equity and debt securities. Between 1993 and 1999, Mr. Duffy was a Senior Research Analyst at Eagle Asset Management, where he launched and managed a dedicated real estate securities investment program.

Prior to his career in investments, Mr. Duffy served for five years as an officer in the United States Army, where his assignments included serving in the 7th Special Forces Group and the 82nd Airborne Division. Mr. Duffy received a B.S. from the United States Military Academy at West Point in 1979 as a Distinguished Graduate (top 5% of class) and an M.B.A. from Harvard Business School in 1986. He earned the Chartered Financial Analyst designation in 1996.

Risks and Disclosures:

Past performance is not a guarantee or a reliable indicator of future results. As with any investment, there are risks. There is no assurance that the portfolio will achieve its investment objective. Mutual funds involve risk, including possible loss of principal. Certain members of James Alpha Management are also registered representatives of FDX Capital, LLC, member FINRA/SIPC. Saratoga Capital Management, LLC, FDX Capital, LLC and Ascent Investment Advisors, LLC are not affiliated with Northern Lights Distributors. The Saratoga Advantage Trust's Funds are distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC. 11/11

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund. This and other information is contained in the Fund's prospectus, which can be obtained by calling (888) 814-8180 and should be read carefully before investing.

As with any investment, there are multiple risks associated with REITs. Risks include declines from deteriorating economic conditions, changes in the value of the underlying property, and defaults by borrowers, to name a few. Please see the prospectus for a full disclosure of all risks and fees.

THE OPINIONS STATED HEREIN ARE THAT OF THE AUTHOR AND ARE NOT REPRESENTATIVE OF THE COMPANY. NOTHING WRITTEN IN THIS COMMENTARY OR WHITE PAPER SHOULD BE CONSTRUED AS FACT, PREDICTION OF FUTURE PERFORMANCE OR RESULTS, OR A SOLICITATION TO INVEST IN ANY SECURITY.

2548-NLD-10/16/2015