



OCTOBER 2018

***Despite summer volatility, solid economic data in the third quarter lifted domestic equities. International equities saw uneven returns during the quarter with Japan hitting highs not seen since the 1990's. We are eyeing two more Federal Open Market Committee Meetings, consumer confidence numbers, and GDP growth numbers in the fourth quarter.***

## MARKETS SEE A STRONG THIRD QUARTER

The summer months proved full of volatility for stocks, as investors were inundated with negative rhetoric between the United States and several of its trade partners. Towards the end of September, the US imposed an additional \$200 billion in tariffs on Chinese goods, which was met with \$60 billion worth imposed by China on US goods. The last quarter of the year is expected to bring much of the same rhetoric and potentially additional volatility surrounding the fight for control of Congress in the mid-term elections. The Federal Open Market Committee meets twice more, in early November and mid-December, with the likelihood of at least one more interest rate increase. The economy enjoyed robust growth during the second quarter, according to the gross domestic product (GDP). If consumer spending continues to expand as it did during the summer months, we believe that economic expansion could potentially surpass third-quarter growth and we could see another 4% GDP growth number.

Despite volatility this summer, the third quarter proved strong for domestic equities. The broad Standard and Poor's 500 Index saw a 7.2% gain during the third quarter which represents almost all of the year to date gains of 9.0% for the domestic benchmark. Corporate earnings continue to soar to all-time highs on the heels of corporate tax cuts, consumer spending, and global growth. Domestic equities also continue to be elevated by record corporate stock buybacks with over \$754 billion authorized year to date and expectations that we will see over \$1trillion in buybacks this year.

International equities have seen much more fragmented returns. The Global Dow has returned 1.2% year to date lifted by Japan and India, which have seen 6.0% and 6.4% returns respectively (Nikkei and S&P BSE Sensex). Chinese markets have been one of the worst performing of international markets year to date experiencing losses of 14.7% amid threats of tariffs by the Trump Administration. The Eurozone has also lagged year to date with the Euro Stoxx returning -1.9%.

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## LAST QUARTER'S KEY ECONOMIC DATA

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### EMPLOYMENT

Total employment rose by 201,000 in August after adding 147,000 new jobs in July. The average monthly gain over the last 12 months is 196,000. The unemployment rate was unchanged for the month at 3.9% (compared to 4.4% in August 2017). The number of unemployed persons fell to 6.2 million (compared to 7.1 million unemployed in August 2017). The labor participation rate was relatively unchanged at 62.7%. Average hourly earnings also increased by \$0.10 to \$27.16. Over the last 12 months, average hourly earnings have risen by \$0.77, or 2.9%.

### FOMC/INTEREST RATES

The Federal Open Market Committee met in late September. They raised the target rate range 25 basis points to 2.00%-2.25%. *This is the highest rate since April 2008.* There is also the likelihood that another 25 basis point increase is on tap for December, with the possibility of three more hikes coming next year. *We continue to monitor short term interest rates and the implications that short-term rate hikes have on the markets.*

### GDP

The second-quarter gross domestic product showed the economy expanded at an annualized rate of 4.2%, according to the Bureau of Economic Analysis. Net exports expanded by 9.3%. Imports fell 0.6%, while government spending grew by 2.5%. The government deficit sits at roughly \$898 billion through August — an increase of almost \$224 billion, or 33.3%, over the same period last fiscal year. The deficit increased by \$137 billion in August over July. Through 11 months of the fiscal year, individual tax receipts are up 7.0% while corporate tax receipts are down 30.4%.

### INFLATION AND CONSUMER SPENDING

Inflationary pressures have remained weak while consumer spending continues to be strong. Prices for consumer goods and services rose only 0.1% in August, the same mark reached in July. Core consumer prices, a tracker of inflationary trends, showed no increase following July's 0.2% gain. Core prices (excluding food and energy) have increased 2.0% over the last 12 months. Consumer spending climbed 0.3%

in August after jumping 0.4% in July. Consumer income (pre-tax and after-tax) rose 0.3% for the month.

The *Consumer Price Index* rose 0.2% in August after increasing 0.2% in July. Over the last 12 months ended in August, consumer prices are up 2.7%. Core prices, which exclude food and energy, climbed 0.1% for the month and are up 2.2% over the 12 months ended in August.

According to the *Producer Price Index*, the prices companies receive for goods and services actually fell 0.1% in August after remaining unchanged in July from June. Producer prices have increased 2.8% over the 12 months ended in August. Prices less food and energy also dropped 0.1% in August from July, and are up 2.9% over the last 12 months.

## HOUSING

Sales are up 12.7% over the August 2017 estimate. New home prices fell in August to \$320,200 from \$328,700 in July. The August average sales price was \$388,400, down slightly from \$389,000 in July. The August median price for existing homes was \$264,800, down from \$269,600 in July. Nevertheless, prices are up 4.6% from August 2017. Sales of existing homes didn't expand in August, but they didn't slow down either. Year-over-year, existing home sales are down 1.5%. Total housing inventory for existing homes for sale in August remained unchanged from July.

## MANUFACTURING

Industrial production advanced 0.4% in August, its third consecutive monthly increase. For the year, industrial production has advanced 4.9%.

## IMPORTS AND EXPORTS

The advance report on international trade in goods revealed that the trade gap expanded in August by \$3.8 billion, or nearly 5.0%, over July. The deficit for August was \$75.8 billion. August exports of goods fell 1.6%, while imports increased 0.7%. Prices for imported goods fell 0.6%. Export prices decreased 0.1% for the month. Over the last 12 months ended in August, import prices are up 3.7%, while export prices have advanced 3.6%.

## INTERNATIONAL MARKETS

Some global stocks have enjoyed a strong run of late. Japanese stocks have approached highs not seen since the early 1990s. Germany, France, and the United Kingdom all saw gains in their respective stock benchmarks. While stocks have flourished, tensions have risen between the United Kingdom and the European Union as they continue to hash out a Brexit deal. Throughout the past several months, the ever-escalating trade battle between the United States and China has weighed on investors around the globe.

## CONSUMER CONFIDENCE

Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, soared in September, nearing an 18-year high.



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Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); [www.goldprice.org](http://www.goldprice.org) (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations.