MarketUpdate

Positive quarter for global markets

September was a positive month for most financial markets, capping off a solid quarter. In the U.S., the Dow Jones Industrial Average gained 2.16 percent, the S&P 500 Index was up 2.06 percent, and the Nasdaq Composite climbed 1.11 percent. For the quarter, these three indices were up 5.58 percent, 4.48 percent, and 6.06 percent, respectively.

These results were backed by solid fundamentals. According to FactSet, as of September 29, the estimated third-quarter earnings growth rate for the S&P 500 was 4.2 percent. Growth is expected to be broad based, led by the energy sector. Technical factors were also supportive for all three U.S. indices during the quarter.

In international markets, the MSCI EAFE Index gained 2.49 percent for September and 5.40 percent for the quarter. The MSCI Emerging Markets Index pulled back 0.38 percent in September, but it outperformed all other equity indices for the quarter, surging 8.04 percent, mainly due to the declining value of the dollar. Technicals for developed and emerging indices were positive, with both remaining above their trend lines for the quarter.

Fixed income results were mixed. The Bloomberg Barclays U.S. Aggregate Bond Index lost 0.48 percent in September. A sell-off in global fixed income toward month-end caused domestic interest rates to rise to their highest levels in more than two months. For the quarter, however, the index was up 0.85 percent.

High-yield corporate bonds were strong. The Bloomberg Barclays U.S. Corporate High Yield Index notched gains of 0.90 percent and 1.98 percent for the month and quarter, respectively.

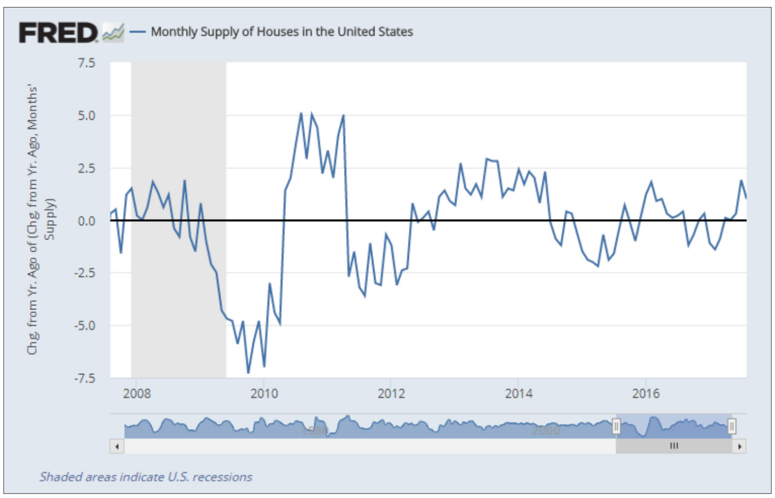
Hurricanes cloud housing outlook

Three major hurricanes hit U.S. territory, causing tremendous damage to both people and property, and we are just starting to see some of the economic impact.

Housing, which had been an area of strength, showed signs of weakening. In August, both new and existing home sales disappointed. These declines were likely due to tight supply, as well as a weather-related slowdown in the South.

Homebuilder confidence also declined, probably due to worries about supply and labor shortages. Although confidence slipped, homebuilders are responding to low supply levels: both building permits and housing starts increased in August. Figure 1 illustrates builders' efforts to create new housing stock in the past few months.

Figure 1. Annual Change in Supply of Houses in the U.S., 2007–2017



Source: U.S. Bureau of the Census

Consumer, business confidence continue

Consumer and business confidence remained strong. The Conference Board's measure of consumer sentiment currently sits at its second-highest level since 2001. Further, looking at August's retail sales report, the core reading, which strips out volatile auto sales, rose by 0.2 percent.

On the business front, the Institute for Supply Management's manufacturing and nonmanufacturing indices both increased by more than expected, indicating that business confidence remains strong. The manufacturing index for September reached its highest level in 13 years.

As with consumers, this confidence translated into hard spending data. The best economic indicator—orders for business equipment—posted a strong 0.9-percent gain. This suggests that business investment is on track for another solid quarter.

Politics takes center stage

With strong economies at home and abroad, the major source of market risk is political. The Trump administration's tax reform proposal, and the resulting economic effects of any changes to the tax code, will be closely watched. There are more opportunities than risks here, however.

International politics is a different story. The German election left Angela Merkel's Christian Democratic Union in control. But the inclusion of a substantial populist voting bloc showed that the potential for political disruption remains very real. Other areas of political risk include Spain and the United Kingdom, where negotiations around an exit from the European Union are becoming increasingly difficult.

In Asia, North Korea is certainly a concern. In addition, snap elections in Japan could cause Prime Minister Shinzo Abe to lose power for the first time since 2012, which could introduce volatility in the U.S.

Despite the risks, economy resilient

These risks have had remarkably little effect on the economy and the financial markets. This does not mean we won't see more volatility; political developments could certainly rock the markets. Even so, the solid economic growth trends around the world put us in a better place to weather any issues that may arise.

Fundamentals ultimately drive long-term performance, and they are solid. As long as we focus on long-term performance, short-term pullbacks can offer more of an opportunity than a threat. As always, a well-diversified portfolio that aligns financial goals and timelines remains the best way to get where you want to go.

All information according to Bloomberg, unless stated otherwise.

Certain sections of this commentary contain forward-looking statements based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Barclays Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg Barclays government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

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