

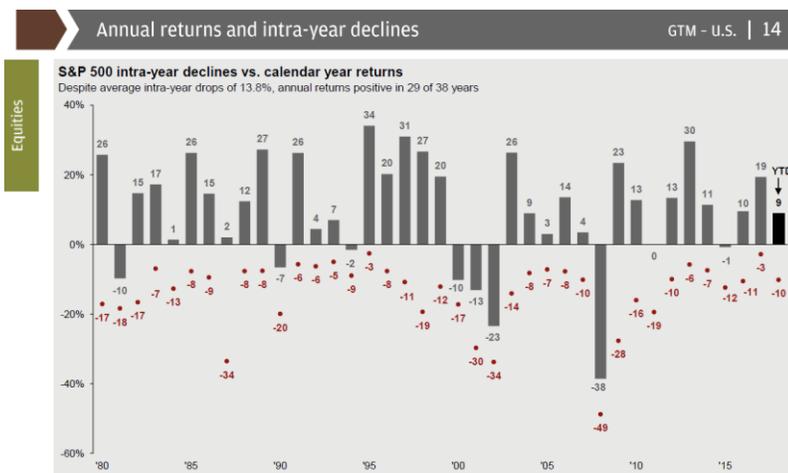


NOVEMBER 2018

October was a roller coaster month bringing equities, as measured by the Standard and Poor's 500 Index, roughly 7% below their September levels. Such volatility has brought a lot of emotions including fear and uncertainty into the forefront for many investors.

MARKETS SEE A VOLATILE OCTOBER DESPITE STRONG NUMBERS

October was a punishing month on domestic equities. The broad domestic equity benchmark Standard and Poor's 500 Index saw a decline of 6.94%. Technology, some of the best performers over the past few years, were harder hit as the NASDAQ declined 9.20%. Small caps, as measured by the Russell 2000 saw a true correction declining 10.91%. On the fixed income front, rates pushed higher with the benchmark 10-year Treasury rate now at 3.14% (up 8 basis points on the month). The short-term target Fed Funds rate is unchanged on the month remaining at 2.00% - 2.25%, up 75 basis points for the year.



While unnerving, the market pullback is a reminder of what are defined as more "normal" markets. It has been several years since markets have seen historically "normal" volatility. Since 1980, the Standard and Poor's 500 Index has had an average intra-year decline of 13.8% while posting positive returns in 29 of those 38 years. Despite these averages, the Standard and Poor's 500 Index has had markedly little volatility over the last several years, not experiencing an "average" intra-year decline since 2011.

Economic data remains strong. As of October 26, 48% of Standard and Poor's 500 Index companies reported Third Quarter earnings. Of those reporting, 77% surprised to the upside on

earnings and 59% surprised to the upside on revenue. We are looking for stocks to rebound in November after the October sell-off. The midterms will likely play a role in the short-term market performance. [Click here to read our thoughts on the midterms](#) and their potential impact on the markets and economy.

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LAST MONTH'S KEY ECONOMIC DATA

EMPLOYMENT

Total employment rose by 134,000 in September after adding 270,000 new jobs in August. The average monthly gain over the last 12 months is 201,000. The unemployment rate declined 0.2% for the month to 3.7%. The number of unemployed persons fell to 6.0 million. The labor participation rate was relatively unchanged at 62.7%. Average hourly earnings also increased by \$0.07 to \$27.24. Over the last 12 months, average hourly earnings have risen by \$0.73, or 2.8%.

FOMC/INTEREST RATES

The Federal Open Market Committee did not meet in October. The next meeting is coming up on November 7 and 8.

GDP

The initial GDP showed the economy expanded at an annualized rate of 3.5% in during the third-quarter. Second-quarter GDP figures were at 4.2%.

INFLATION AND CONSUMER SPENDING

Inflationary pressures are low and consumer spending remains strong. According to the Bureau of Economic Analysis, consumer spending surged last month increasing at a rate of 4%.

The *Consumer Price Index* rose 0.1% in September after increasing 0.2% in August. Over the last 12 months ended in September, consumer prices are up 2.3%. Core prices, which exclude food and energy, climbed 0.1% for the month and are up 2.2% over the 12 months ended in September.

According to the *Producer Price Index*, the prices companies receive for goods and services jumped 0.2% in September after increasing 0.2% in August. Producer prices have increased 2.2% over the 12 months ended in September. Prices less food and

energy also gained 0.2% in September and are up 2.5% over the last 12 months.

HOUSING

New home sales fell 5.5% in September and are down 13.2% from last September's estimates. The median price for new house sales in September was \$320,000, down a mere \$200 from August. September's average sale price was \$377,200, down \$11,200 from August. Year over year existing home sales are down 4.1%.

MANUFACTURING

Industrial production advanced 0.3% in September, its fourth consecutive monthly increase. For the year, industrial production has advanced 5.1%.

IMPORTS AND EXPORTS

The advance report on international trade in goods revealed that the trade gap expanded in September by \$76.0 billion. Prices for imported goods rose 0.5%. Export prices were unchanged for the month. Over the last 12 months ended in September import prices are up 3.5%, while export prices are up 2.7%.

INTERNATIONAL MARKETS

On trade concerns the Chinese Yuan has hit its lowest level since May of 2008 and international markets broadly saw sell offs during the month. The October sell-off has cost international equity and bond markets some \$5 trillion in value. Notable, Angela Merkel has announced that she will step down as German chancellor when her mandate ends in 2021.

CONSUMER CONFIDENCE

Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, rose again in October and is 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 (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.