

Weekly Market Commentary

October 29, 2018

The Markets

Why did the stock market fall when the economy is doing well?

The answer is that one reflects the past and the other anticipates the future.

Last Friday's advance estimate from the *Bureau of Economic Analysis* showed the U.S. economy grew 3.5 percent during the third quarter of 2018. Harriet Torry of *The Wall Street Journal* reported:

“The economy powered ahead in the third quarter, driven by robust consumer and government spending, though Friday's report included warning signs that the business sector faces turbulence that could hold back the expansion in the months ahead.”

Third quarter's economic growth was slower than economic growth during the second quarter and stronger than economic growth during the first quarter of 2018.

Economists refer to economic growth as a 'lagging indicator.' It is a measure that may help confirm longer-term trends, but offers little information about the future.

In contrast, the stock market is a 'leading indicator.' It reflects what investors think may happen over the next few weeks or months. The volatility we've seen during the past two weeks suggests investors are uncertain about what may be ahead. Many factors are contributing to uncertainty. For instance, investors are concerned:

- **The U.S. economy may grow more slowly.** Economic growth slowed during the third quarter and investors are uncertain whether the trend will continue through the remainder of 2018 and into 2019.
- **Negative earnings guidance from companies.** Corporate earnings growth was robust during the third quarter. Through Friday, almost one-half of companies in the Standard and Poor's 500 Index had reported earnings and their blended earnings growth rate was 22.5 percent, according to *FactSet*. However, despite strong earnings growth, many companies' shares lost value. One reason is a fair number of companies have issued negative guidance indicating earnings may be weaker in the future.
- **Trade tensions could slow global growth.** While trade disputes with Mexico and Canada have been resolved, trade issues between the United States and China remain. Al Root of *Barron's* reported:

“Now, on third-quarter calls, companies have begun to spell out tariff impacts in greater detail. Calculating the ultimate impact of tariffs isn't easy or precise. A fair calculation would include not only costs but also changes in

demand and the possibility of supply-chain disruptions. The result could be significant. The International Monetary Fund lowered its global growth expectations when it released its recent outlook because of, in part, ‘escalating trade tensions.’

- **Federal Reserve rate hikes could slow economic growth too quickly.** The Fed has begun raising the Fed funds rates, encouraging interest rates higher, in an effort to keep inflation in check. Some are concerned the Fed may raise rates too quickly or too high and choke economic growth.

You have probably heard the saying, “Markets hate uncertainty.” Recent volatility seems to be the result of uncertainty and it is possible uncertainty will cause stock markets to bounce around for some time.

When stock markets are volatile and headlines describe the action with words like ‘plunge’ and ‘erase,’ it’s easy to let emotion get the better of you. Before making changes to your portfolio, please give us a call. We can discuss your concerns and any changes you would like to make to your long-term financial plan.

Data as of 10/26/18	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-3.9%	-0.6%	3.8%	8.7%	8.6%	12.1%
Dow Jones Global ex-U.S.	-3.9	-14.8	-11.4	1.2	-0.8	6.0
10-year Treasury Note (Yield Only)	3.1	NA	2.5	2.1	2.5	3.7
Gold (per ounce)	0.5	-4.8	-3.1	1.9	-1.9	5.4
Bloomberg Commodity Index	-1.1	-3.6	-1.1	-0.8	-7.7	-4.0
DJ Equity All REIT Total Return Index	-1.1	-2.0	1.2	5.2	7.4	14.1

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron’s, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

IS THAT A FACT? A recent *Pew Research Center* survey found younger people (ages 18 to 49) were better able to distinguish facts from opinions than older people.

Jeffrey Gottfried at *Pew* reported, “About a third of 18- to 49-year-olds (32 percent) correctly identified all five of the factual statements as factual, compared with two-in-ten among those ages 50 and older. A similar pattern emerges for the opinion statements. Among 18- to 49-year-olds, 44 percent correctly identified all five opinion statements as opinions, compared with 26 percent among those ages 50 and older.”

Pew concluded younger Americans, especially millennials, were better able to distinguish fact from opinion than older Americans because young people tend to be more digitally savvy and also tend not to have a strong affiliation to either political party.

If you’re ready to test your acumen, visit the [Pew Research Center](#) website and search for ‘Quiz: How well can you tell factual from opinion statements?’

Weekly Focus – Think About It

“I never considered a difference of opinion in politics, in religion, in philosophy, as cause for withdrawing from a friend.”

--Thomas Jefferson, 3rd American President

Best regards,

James E. Tyrrell II, CFP® , ChFC

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.

* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

- * You cannot invest directly in an index.
- * Stock investing involves risk including loss of principal.
- * Consult your financial professional before making any investment decision.
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