September 2018 Market Review and Outlook

If you watched the Dow Jones 30 all month, then it was a great month, the Dow rallied hard mid-month as Trump got more aggressive on tariff talk, taking out the late January all-time highs. The rest of the market not so much. The S&P 500 was up for the month, but not much. U.S. Small Cap drifted lower throughout the month. International and Emerging Market equities swooned in the first half of the month, but rallied back to approximately unchanged. The U.S. 10-year government bond decided to come out of the shadows and marched back to the highest yield for the year, 3.11%, last seen in May, but then started to back off those levels. The yield ended at 3.06% up from last month's close of 2.85%.

During the month, the Dow gained 1.9%, the S&P 500 rose 0.4% and the Small Cap Russell 2000 slid (-2.5%). The major U.S. Markets broke out to new highs and now the question is, have we started another major leg higher? The International markets in stark contrast have continued to be weak for months after a strong January, the MSCI EAFE IMI index was up 0.6% for the month and MSCI Emerging Markets IMI index was down (-0.9%).

For the month, the big winners were few with Healthcare (+3.1%) and Consumer Discretionary (+2.4%). Real Estate (-4.0%), Financials (-3.5%) and Materials (-3.0%) were the big losers.

Oil prices had a strong run the last 10 days of the month after a flat start. The current month Nymex Crude Oil futures settled at $73.56 up from $69.37 a barrel, posting a 6.0% gain. It's not really clear on the reasons behind the rally. Trump said prices were too high, Saudi Arabia said they were prepared to increase production 500,000 barrels per day, which usually would weigh on prices, but apparently not this time around. The path for RBOB Gasoline was similar to Crude Oil. Notwithstanding the deluge from Hurricane Florence, the East Coast and specifically the oil infrastructure has not had much Hurricane activity this year. However, the Pacific has been a hotbed of activity with the 24th storm currently roaring through Japan and even Arizona is getting into the action. Monday and Tuesday our area is expecting the remnants of Hurricane Rosa to bring some heavy rains.

Economic indicators showed solid results. The August PMI Manufacturing index rose 3.2 points to 61.3 from the previous month reading of 58.1. Additionally, the PMI Services Index rose to 58.5 from 55.7 in July. Any reading above 50 indicates improving conditions. Consumer confidence jumped again in September to 138.4, up from a revised 134.7 in August, again the highest level since October 2000. The unemployment rate held steady at 3.9 and saw the economy add 201,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.2% again in August on a seasonally adjusted basis. Over the last 12 months, the all-items index rose 2.7% on a non-seasonally adjusted basis. On the whole, these numbers reflect a healthy economy and support further interest rate increases, which is what the Fed said and did when they met 9/27.

The U.S. Equity Markets have fully recovered the losses from early February. However, bond yields remain relatively range bound and International and Emerging Markets Equity continue to weaken following the large sell off in February along with Emerging Market currencies. The U.S. Economy continues to look strong and the Fed continues to be positioned to raise rates further. The big question, are non-U.S. Markets already starting to reflect the effects of Fed tightening and the U.S. Markets day in the sun is nearing sunset or can the U.S. continue to power higher?

With all of that said, the Equity Markets are entering the 4th quarter, which historically is the strongest performing quarter. However, the Fed is continuing to raise rates, the Mid-Term elections are coming up in early November and of course the ongoing trade/tariff talks. So, October is likely to continue seeing the bull market progress unabated. Though, October would probably be a great time to evaluate if the level of risk you are taking in the market is at the level that you are comfortable with. Eventually the Fed will succeed and slow down the economy, the November election results could create an even greater contentiousness in politics. So, while October may be smooth sailing, November could bring some volatility.

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