

Market Month: October 2017

The Markets (as of market close October 31, 2017)

Despite continuing drama in the White House and the fury of Mother Nature, stock growth remained steady for much of October. Favorable corporate earnings reports, a strong jobs sector, and growing consumer income overcame any trepidations investors may have had. Each of the benchmark indexes listed here posted monthly gains, led by the large caps of the Dow, which gained over 4% for the month and is up over 18% year-to-date. The tech-heavy Nasdaq has remained steady throughout the year, reaching new highs in October. The small caps of the Russell 2000 gained less than 1.0% for the month, but is up over 10.0% since the end of 2016.

By the close of trading on October 31, the price of crude oil (WTI) was \$54.54 per barrel, up from the September 29 price of \$47.07 per barrel. The national average retail regular gasoline price was \$2.488 per gallon on October 30, down from the September 25 selling price of \$2.583 and \$0.258 more than a year ago. The price of gold increased by the end of October, closing at \$1,271.80 on the last trading day of the month, down \$18.04 from its September 29 price of \$1,289.84.

Market/Index	2016 Close	Prior Month	As of October 31	Month Change	YTD Change
DJIA	19762.60	22405.09	23377.24	4.34%	18.29%
NASDAQ	5383.12	6495.96	6727.67	3.57%	24.98%
S&P 500	2238.83	2519.36	2575.26	2.22%	15.03%
Russell 2000	1357.13	1490.86	1502.87	0.81%	10.74%
Global Dow	2528.21	2907.67	2959.78	1.79%	17.07%
Fed. Funds	0.50%-0.75%	1.00%-1.25%	1.00%-1.25%	0 bps	50 bps
10-Year Treasuries	2.44%	2.33%	2.37%	4 bps	-7 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Last Month's Economic News

- **Employment:** September saw a loss of 33,000 jobs after averaging 172,000 new jobs over the prior 12 months. The unemployment rate fell slightly to 4.2%. The number of unemployed persons declined by 331,000 to 6.8 million. The labor participation rate increased from 62.9% in August to 63.1%. The average workweek for all employees

remained at 34.4 hours in September. Average hourly earnings rose by \$0.12 to \$26.55. Over the 12 months ended in September, average hourly earnings have risen \$0.74, or 2.9%. According to the Bureau of Labor Statistics, hurricanes Harvey and Irma impacted the number of jobs available, but not the national unemployment rate. This report appears to indicate that the labor market is tightening with fewer jobs available and increasing wages needed to attract workers.

- **FOMC/interest rates:** The Federal Open Market Committee met in September following its last meeting in July and left the target federal funds rate range at 1.00%-1.25%. However, some economic indicators are showing mild inflationary pressures, which, when coupled with a labor market that could be nearing full employment, may lead to another interest rate hike when the Committee next meets in early November.
- **GDP/budget:** The first estimate of the third-quarter gross domestic product showed expansion at an annual rate of 3.0%, according to the Bureau of Economic Analysis. The second-quarter GDP grew at an annualized rate of 3.1%. Gross domestic income, which estimates all income earned while producing goods and services, increased 1.8% in the third quarter compared to an increase of 0.9% in the second quarter. As to the government's budget, September marked the end of the fiscal year. The federal deficit for FY 2017 was \$665.7 billion, more than \$80 billion, or 13.7%, higher than the 2016 deficit. For the 2017 fiscal year, government expenses increased by about 3.0%, while receipts rose 1.5%.
- **Inflation/consumer spending:** Inflationary pressures may be mounting. The personal consumption expenditures (PCE) price index (a measure of what consumers pay for goods and services) ticked up 0.4% in September after climbing only 0.2% in August. The core PCE price index (excluding energy and food) inched ahead 0.1% for the month. Personal (pre-tax) income increased 0.4% and disposable personal (after-tax) income also gained 0.4% from the prior month. Personal consumption expenditures (the value of the goods and services purchased by consumers) jumped a robust 1.0%.

According to the Consumer Price Index, consumer prices rose 0.5% in September, after recording a 0.4% gain in August. For the 12 months ended in September, consumer prices are up 2.2%, a mark that approaches the Fed's 2.0% target for inflation. Core prices, which exclude food and energy, edged up 0.1% in September, and are up 1.7% since September 2016.

The Producer Price Index showed the prices companies receive for goods and services advanced 0.4% in September from August. Year-over-year, producer prices have increased 2.6%. Prices less food and energy increased 0.4% for the month and are up 2.2% over the past 12 months.

- **Housing:** The housing sector started to gain momentum heading into the fall season. Total existing-home sales climbed 0.7% for September following a 1.7% drop in August. Over the last 12 months, sales of existing homes are down 1.5%. The September median price for existing homes was \$245,100, 3.4% lower than August's median price of \$253,500 but up 4.2% from the median price last September. Inventory for existing homes rose 1.6% for the month following an August decline of 2.1%.

The Census Bureau's latest report reveals sales of new single-family homes climbed a whopping 18.9% in September to an annual rate of 667,000 — far outpacing August's rate of 561,000. The median sales price of new houses sold in September was \$319,700 compared to \$300,200 in August. The average sales price was \$385,200 (\$368,100 in August). The number of houses for sale at the end of September was 279,000 (284,000 in August), which represents a supply of 5.0 months at the current sales rate.

- **Manufacturing:** Industrial production increased 0.3% in September following a 0.9% decline in August. The continued effects of Hurricane Harvey and, to a lesser degree, the effects of Hurricane Irma combined to hold down the growth in total production in September by 0.25 percentage point. Capacity utilization increased slightly from 75.8% in August to 76.0% in September. Manufacturing output edged up 0.1%. Mining output rose 0.4% in September after declining 0.8% in August. The index for utilities jumped 1.5% after falling 5.5% in August. New orders for manufactured durable goods increased 2.2% in September after climbing 1.7% in August. Shipments of manufactured goods increased 1.0%, while unfilled orders, which fell the prior two months, increased 0.2% in September.
- **Imports and exports:** The advance report on international trade in goods revealed that the trade gap for September was \$64.138 billion, \$0.8 billion (or about 1.3%) greater than the deficit in August. Exports of goods for September were \$129.6 billion, \$0.9 billion more than August exports. Imports of goods for September were \$193.7 billion, \$1.7 billion more than August imports.
- **International markets:** In a sign that the European economy is heading in the right direction, the European Central Bank is scaling back its bond-buying program, while

extending its duration well into 2018. The ECB will continue to buy bonds into September of 2018, but at a slower pace. The province of Catalonia, Spain, held a controversial independence referendum on October 1, where voters were heavily in favor of splitting from Spain. The Spanish high court declared the referendum vote illegal.

Nevertheless, Catalonia's regional president signed a declaration of independence about a week later, which has since prompted the Spanish prime minister to consider imposition of direct rule. Experts have estimated that a Catalanian break from Spain, a Catalexit, could have a significant impact on the Spanish economy.

- **Consumer sentiment:** Consumer confidence in the economy rose in October, reaching its highest level in almost 17 years. The Conference Board Consumer Confidence Index® for October climbed to 125.9 from September's revised 120.6. Consumers expressed growing optimism about present economic conditions as well as future growth. A strong job market and improving business conditions were the primary reasons for the upbeat consumer sentiment.

Eye on the Month Ahead

The president is expected to name a new Federal Reserve chairperson this month, and the Federal Open Market Committee will likely raise the short-term interest rate following its meeting in the first week of November. Consumer spending should pick up entering the holiday season, which could nudge inflation higher.

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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. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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