

## Market Update

September 30, 2018

U.S. equity market returns during the third calendar quarter were positive and were all within a narrow range of results. The Dow Jones Industrial Average was up 9.0%, the S&P 500 was up 7.2% and the NASDAQ was up 7.1%. Large companies, particularly within the technology sector, continued to carry the overall market to new market highs.

Mid-cap and small cap stocks returns were positive, but only up 4.2% and 4.4% respectively. Outside the United States, international markets fared even worse. Developed international markets were up 1.5% while emerging international markets were down 1.0%. International market returns reflect weakening economies, outside of the United States, and potential concerns about worldwide trade and potential tariffs.

The Federal Reserve raised the Federal Funds rate for the third time in September, to a range of 2.00%-2.25%. The ten year U.S. Treasury Note responded during the quarter by rising from 2.80% on June 30, 2018 to 3.05% on September 30, 2018.

Corporate earnings reports for the second calendar quarter were up more than 20% over the prior year's comparable time period. Third quarter earnings reports are likely to be in the same general range of a 20% improvement over last year. Looking forward, the most frequently cited headwind for future earnings growth comes from a strengthening dollar. The impact on corporate earnings growth is likely to be on the order of 2-4%, meaning upcoming reports may be in the 16-18% range rather than the 20% or higher rates of growth in the first half of 2018.

With U.S. equity markets up roughly 10% (more for NASDAQ) and full year earnings for 2018 projected to be 20% better than for 2017, the market is in an environment where valuations are down from last year while growth is up. Such a combination typically leads to further upside in equity market levels. We are invested consistent with that premise.

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