MONTHLY MARKET UPDATE

October 2018

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“October: This is one of the peculiarly dangerous months to speculate in stocks in. The others are July, January, September, April, November, May, March, June, December, August, and February.” - Mark Twain

October 2018 - Broad Economic News

In October, the U.S. added 250,000 jobs. This result was well above forecasts of 188,000. The results gave way to an unemployment rate of 3.7% - the lowest in 49 years. While some of the bump in new jobs may have been the result of a reverse in delayed hiring due to Hurricane Florence the month prior, there is no arguing the U.S. workforce is experiencing a strong tailwind. Expectations are that wage inflation will follow suit at a pace more aggressive than that which we have seen to date. These labor market numbers will likely keep the Fed on track to continue raising the benchmark interest rate, which is currently between 2% and 2.25%.

Equity Markets Update |

The fourth quarter 2018 got off to a rough start from a stock market perspective with the S&P 500 Index losing 6.8% for the month - giving support to the term “October Effect.” The October effect is a theory, not supported by actual data, that stocks tend to decline during the month of October. The broader market was down as well during the month with small cap stocks, as measured by the Russell 2000 Index, off by 10.7%. Value stocks held up better than growth stocks for the month, but growth stocks continue to dominate in 2018, outperforming value stocks by 13 percentage points in the large cap space on a year-to-date basis.

The outlook surrounding growth has lost some of its luster due to concerns over peak earnings, tight financial conditions and trade risks. Market volatility is certainly making investors cautious about adding risk to their portfolios, a sentiment we would agree with at this time. Corporate earnings have been decent, the banking sector is healthy, businesses are upbeat and while interest rates are higher, financial conditions have not become restrictive. We are monitoring the impact a slow down in auto sales and housing starts may have but we are not overly concerned at this point. Additionally, we are moving into what has historically been a stronger period for markets. The month during and after midterm elections have done well in times past.

Global stock markets have struggled, particularly during October. Broad international measures using the MSCI ACWI Index showed the global market was off 7.5% and emerging markets were off 7-10%, with growth stocks underperforming value as well. Prospectively, we will be watching closely the effect tariffs are having on global markets. So far, the U.S. has not been severely impacted, though there are growing concerns over the ramifications tariffs will have on inflation.

Fixed Income Markets Update |

With increasing focus on Fed activity comes an increasing chorus of Fed critics. Some feel the Fed is being too aggressive with their current pace of interest rate increases (the President for one) while others say there are meaningful currents pushing inflation higher (growing wage inflation from a tighter labor force and pressure from tariffs). These investors argue for the Fed to be more aggressive. In either case, the Fed has communicated its intention to continue to tighten and to modify their actions based on economic activity. General expectations are for short-term rates to be in the 2.5% to 2.75% range by mid-2019.

Fixed income returns for October were also mostly negative but not to the degree seen in equity markets. The global bond market as measured by the Bloomberg Barclays Global Aggregate Index was down 1.1% for the month. Longer term maturities in the U.S. were impacted more than short term. Short term credits were slightly positive for the month, high yield was relatively flat and inflation protected (TIPS) securities down generally by 0.5%.

Outlook |

The fourth quarter is clearly shaping up to be a tug of war between what’s transpired as a seemingly October Effect - facing off against the historical record of strong months (i.e., November and December) in mid-term election years. While past performance is not an indication of future results, in this environment, we continue to see volatility playing a larger role. We believe this not only in light of the mid term election environment, but also because of weakening sentiment on U.S. and non-U.S. risk assets, softening global growth, continued trade tensions, rising U.S. rates and geopolitical risks. In this environment, we are focusing on the tools we have in place to provide a buffer to downside risks given how late we are in the current economic cycle and the historic length of the bull market run. Our focus remains on prudent diversification with an eye on near term, intermediate and longer-term risks.

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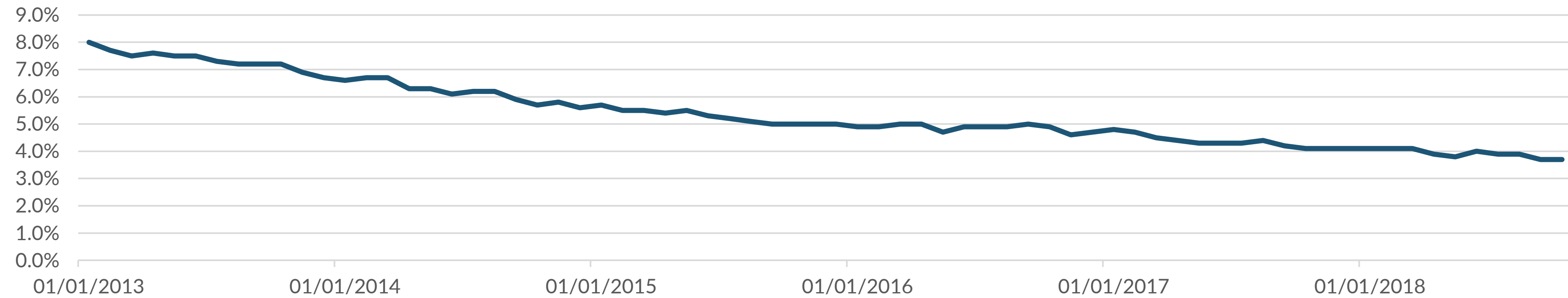
Unemployment Rate



Equities

	October Return
S&P 500 TR USD	-6.84%
Russell 1000 TR USD	-7.08%
Russell 2000 TR USD	-10.86%
MSCI ACWI GR USD	-7.47%
MSCI EAFE GR USD	-7.95%
MSCI EM GR USD	-8.70%

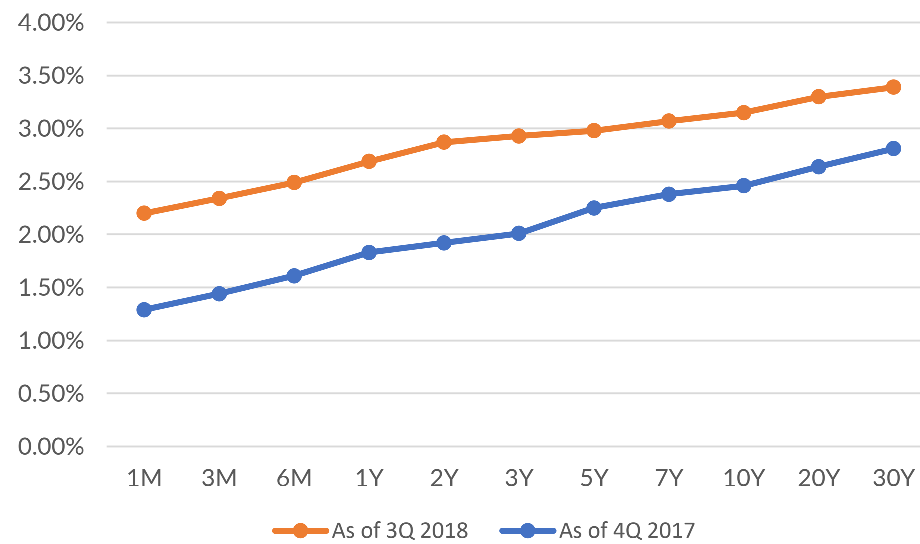
Equity Style Box

	Value	Core	Growth
Large	-4.18%	-6.60%	-8.66%
Mid	-7.20%	-8.31%	-9.90%
Small	-8.95%	-10.86%	-12.65%

Fixed Income

	October Return
ICE BofAML US 3M Treasury Bill	0.17%
Bloomberg Barclays US Govt/Credit 1-3 Yr	0.11%
Bloomberg Barclays US Govt Interm	0.04%
Bloomberg Barclays US Govt/Credit Interm	-0.14%
Bloomberg Barclays US Govt/Credit	-0.87%
Bloomberg Barclays US Agg Interm	-0.31%
Bloomberg Barclays US Agg Bond	-0.79%
Bloomberg Barclays Global Agg Bond	-1.12%
Bloomberg Barclays US Treasury	-0.48%
Bloomberg Barclays US Treasury US TIPS	-1.43%
Bloomberg Barclays US Corporate IG	-1.46%
Bloomberg Barclays High Yield Corporate	-1.60%
Bloomberg Barclays Municipal	-0.62%
Bloomberg Barclays Municipal 7 Yr 6-8	-0.30%

Yield Curve



Data Source: Morningstar, Federal Reserve; LAMCO Advisory Services, Inc.

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