Economic & Market Overview

as of September 30, 2018

Broader market equity returns in the third quarter were propelled by a continuation of second quarter trends. Second quarter GDP growth came in at a solid 4.2 percent according to the Bureau of Economic Analysis third estimate, and the Atlanta Federal Reserve's GDPNow estimate for third quarter GDP growth was tracking up 4.1 percent as of October 1, 2018. Earnings growth for S&P 500 members in the second quarter again exceeded 20 percent, similar to the first quarter, and analyst expectations for earnings growth through the remainder of the year remains robust. Bond returns remained muted as measured by the Bloomberg Barclays U.S. Aggregate Bond Index which finished essentially flat for the quarter and ended down 1.6 percent year-to-date. The interest earned by holding bonds in the third quarter was offset by declines in bond prices due to rising interest rates.

The stock market response to these strong numbers was not universally strong, which is a little concerning. Two mega cap stocks, Apple and Amazon, accounted for nearly 7.5% of the S&P 500 market capitalization and generated over a quarter of the year-to-date return for the S&P 500 index at the end of the third quarter. Also, the financial services sector continued to lag, gaining only 4.4 percent in the third quarter and finishing up 0.1 percent year-to-date as measured by the S&P 500 Financial Index. Broader participation in the rally would be more encouraging as it would signal a stronger foundation is supporting equity markets.

Our near-term bias remains moderately cautious. We are slightly underweight to neutral on equity positions in most portfolios. Fixed income allocations continue to focus on short term bonds allowing us to pick up more yield as rates move higher. Valuations for most securities are elevated compared to longer term historical trends so we continued to remain disciplined when making new purchases.
