Quarterly Market Commentary

Third Quarter 2017

The third quarter of 2017 will be remembered as a winner all around – the economy kept delivering positive news and all of the US stock markets performed very well. In fact, the markets essentially saw all regions and sectors return positive gains for investors – even the commodities sector sprang back to life.

Take a look at how the four major US market indexes performed:	3Q 2017
Dow Jones Industrial Average	**4.9%**
S&P 500	**4.0%**
NASDAQ	**5.8%**
Russell 2000	**5.4%**

With returns like those, no one would argue with the statement that Q32017 was pretty good all around, buoyed by a mostly positive September. But the third quarter mostly continued the recent performance trend, as evidenced by the trailing 12-month returns:

Index	September, 2017	Trailing 12 Months
S & P 500	2.06%	18.61%
Dow Jones Industrial Avg	2.16%	25.45%
NASDAQ Composite	1.11%	23.68%
MSCI EAFE	2.49%	19.10%
MSCI Emerging Markets	-0.40%	22.46%
Barclays U.S. Aggregate Bond	-0.48%	0.07%
Barclays U.S. Corporate High Yield	0.90%	8.88%
Barclays Municipal	-0.51%	0.87%
Bloomberg Commodity	-0.15%	-0.29%

The Bull Market Continues to Charge Forward

The recent quarterly results for the US stock markets are just another milestone in this seemingly never-ending bull market. Here are some interesting facts to consider when trying to determine whether this bull market is long-in-the-horns:

- The S&P 500 has risen for eight straight quarters.
- In other words, the last negative quarter occurred two years ago – 3Q of 2015 – and it has risen by nearly a third over that time period.
- The DJIA has enjoyed an upward stampede for about the same period of time, as it is up by more than 37% over the past eight quarters.
- The technology-heavy NASDAQ had its fifth straight quarterly gain.
- Small-cap stocks, as represented in the Russell 2000 Index, had their sixth straight quarterly gain.

Will the fourth quarter of 2017 see the markets slow down a bit? Well, that's anyone's guess, but according to LPL, the fourth quarter is historically the strongest of the year. In fact, since 1950, the S&P 500 gains an average of 3.9% over the quarter, and the final three months of the year are positive nearly 80% of the time.

It is also worth pointing out that since 1952, September and October have been the first- and second-worst performing months of the year. And November and December have been the 3rd and 2nd best performing months of the year.

The Economy Drove Everything

The stock markets were lifted by a number of factors this past quarter, including better than expected second-quarter earnings numbers, an accommodating Federal Reserve, positive investor sentiment, improvement in the labor market, stable and low interest rates, low inflation, and the hopes of a pro-growth tax-reform package from Congress.

In fact, not only were the major indexes higher, but every major asset class also moved up. Volatility remained low, but interestingly taking on more risk was rewarded as emerging market stocks advanced almost 8% and US Government bonds generated a very pedestrian 0.38% return.

Looking at sectors, technology continues to lead the way – up 8.3% and driven by the dominance of the FAANG stocks – Facebook, Apple, Amazon, Netflix and Google (really Google's parent Alphabet). During the third quarter alone, Facebook leapt 13% and Apple was up 7%.

Energy stocks came roaring back after posting a 10% gain in September alone (up 6% for the quarter). Still the worst performing sector in 2017, energy stocks were supported by oil prices climbing above $50/barrel, a floor most expect to be maintained, especially as the full impact of the three Hurricanes is calculated.

Financial stocks jumped dramatically in September and gained over 5% for the month and finished the quarter up a little less than 5% (4.8% actually). Financial stocks benefitted from a recent rise in long-term rates and expectations that the Fed might raise rates again this year. And Trump's proposed tax plan will likely continue to boost the prospects for the financial sector.

Fixed income saw smaller gains over the quarter, but the overall move for bonds was higher. Most attribute this to the recent meeting of the Fed, where it was announced that the $4.5 trillion Fed balance sheet would be reduced gradually over several years. And the markets are pricing in another short-term rate increase before the year is over, with expectations being better than 75% that such a rate will occur before the calendar turns.

Q4 Promises to Be Interesting

As investors turn their attention to Q4, everyone can expect lots of activity. Tax reform, continued "arguments" with North Korea, budget battles, earnings reports, and of course the holiday season of consumer spending.

Glass-half-full investors will continue to preach that nothing seems to be able to hinder this almost 9-year old bull market. Three major hurricanes didn't do it; alarming actions from North Korea hasn't done it and a massive breach at Equifax didn't do it.

Glass-half-empty investors will remind everyone that we are about to welcome the 30th anniversary of the Crash of '87. **What kind of investor are you?**