SAGE VIEW

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MARKET COMMENTARY

October 2018

Stock prices took investors on a volatile ride in October as interest rates, global economic health concerns, and a smattering of disappointing corporate earnings reports dominated trading. The Dow Jones Industrial Average dropped 5.1%, while the Standard & Poor's 500 Index lost nearly 7%. The NASDAQ Composite fell 9.2%.

The month started out strong on news that Canada would be joining Mexico and the U.S. in a revamped trade agreement. But investor enthusiasm quickly faded as rising interest rates sent stocks lower.

While higher interest rates were expected, the magnitude and speed of the rate increase caught many investors by surprise. The flight from equities accelerated on signs of slowing global economic growth and more trade concerns with China.

Market sentiment turned positive mid-month on strong economic data, but again quickly faded. Waves of selling in late October were fueled by tepid 2019 guidance in key earnings reports. At one point, the Dow Jones Industrials and S&P 500 turned negative for the year, and the NASDAQ Composite entered correction territory.

Stocks staged a powerful rally in the final two days of the month with a string of solid earnings releases, giving some relief to wary investors.

Corporate earnings reported in the third quarter have been exceeding expectations. But investors have been looking for economic clues in the companies issuing negative 2019 guidance.

With 48% of the S&P 500 companies reporting earnings, 77% of those have reported a positive earnings surprise, and 59% a positive sales surprise. But through October, 26 S&P 500 companies issued negative earnings guidance for 2019, compared with 15 who have guided forecasts higher.

In recent weeks, the U.S. has signed new trade agreements with South Korea, Canada, and Mexico, while working on trade talks with the European Union. The agreements have been a welcome relief to businesses and investors, but the trade dispute with China remains unresolved.

The trade stalemate has been a persistent worry overhanging the market. Rising interest rates were a factor behind the market's October drop, but concerns about global economic growth related to trade issues has also contributed to the sudden reversal in sentiment.

It's uncertain if these recent trade deals will help negotiations with China. Some believe that the elimination of multiple parallel trade negotiations will benefit U.S. interests as the economic impact of tariffs begin to weigh on China's economy.

On the other hand, China may not feel especially pressured anytime soon, since it has a number of tools to help offset the impact of tariffs, including fiscal and monetary stimulus. Investors may start watching decisions by China's economic policy-makers for indications of how deeply the country may dig in its heels. Meanwhile, investors shouldn't lose sight of the potential impact of the higher costs of Chinese imports on American consumers, which may factor into corporate profits.

The stock market drop in the U.S. was mirrored in overseas markets, with the MSCI-EAFE Index slumping 9.4%.

European markets battled global headwinds as well as those closer to home, including Italy's budget standoff with the European Union, the Brexit negotiations, and the potential leadership change confronting Europe's biggest economy (Germany). Major markets struggled, with Germany dropping 6.5%, France falling 7.3%, and the U.K. sliding 5.1%. Stocks in the Pacific Rim countries also struggled as Australia fell 6.1%, Japan 9.1%, and Hong Kong 10.1%.

This material is provided by SageView Advisory Group and written by FMG Suite, LLC.

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SUMMARY OF MAJOR ECONOMIC INDICATORS				
INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q3 2018	3.5%	↑	The first estimate for Q3 GDP was 3.5%. Growth was boosted by strong consumer spending. However, business investment slowed substantially.
Global Real GDP Growth (ann. rate; Source: IMF)	Q3 2018	3.7%	n/a	The IMF's global growth forecast for 2018 was lowered to 3.7%, citing rising trade protectionism and instability in emerging markets.
Non-Farm Employment Growth	Oct 2018	250,000	↔	Job growth rebounded more than expected after weather-related issues distorted data in the prior month. Job gains have averaged just above 200,000 per month over the last 12 months.
Unemployment Rate	Oct 2018	3.7%	↓	The unemployment rate held steady at its 49-year low as the labor market continued to tighten. It has remained below the 4.0% mark in six out of the last seven months.
ISM Manufacturing Index	Oct 2018	57.7	↑	U.S. manufacturing activity slowed for the second month in a row as the stronger dollar and global trade tensions may be finally starting to have an impact on this sector.
ISM Non-Manufacturing Index	Oct 2018	60.3	↑	The services sector continued to signal a robust pace and remained near its 21-year high reached in September. The index points to an economy continuing to expand at a solid rate.
Capacity Utilization	Sep 2018	78.1	↑	Capacity utilization for the industrial sector remained tight, remaining above 78 level for the second month.
Consumer Price Index (CPI, SA)	Sep 2018	0.1%	↑	The CPI rose less than expected in September, primarily due to lower energy prices. Most inflation metrics are slightly above the Fed's 2% target on an annual basis.
Producer Price Index (Final Demand, SA)	Sep 2018	0.2%	↓	Prices for final demand goods rose in September as core components rose strongly and prices rose for final demand services.
Leading Economic Indicators Index (LEI)	Sep 2018	0.5%	↔	The leading economic indicators rose again in September, pointing to a strong growth trajectory for the economy as it enters 2019. The economy may be facing capacity constraints in certain areas.
10-year Treasury Yield	Oct 2018	3.16%	↑	The 10-year Treasury yield increased by 10 basis points in September as the major economic indicators remained strong. The Fed appears committed to further rate increases.

*NOTE: The "Value" column shows the most current level or change over the prior month or quarter.

GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS						
	Oct Close	Oct	Year- to-Date	1 year	3 years	5 years
US Indices						
Dow Jones 30	25,116	-4.98%	3.41%	9.87%	15.25%	13.92%
S&P 500	2,712	-6.84%	3.01%	7.35%	11.52%	13.04%
Nasdaq	7,306	-9.16%	6.71%	9.74%	14.37%	16.64%
Russell 2000	1,511	-10.86%	-0.60%	1.85%	10.68%	9.90%
International Indices						
MSCI EAFE (Developed)	1,815	-7.95%	-8.86%	-6.39%	4.13%	4.66%
MSCI EM (Emerging)	956	-8.70%	-15.45%	-12.19%	6.92%	3.41%
US Fixed Income						
Bloomberg Barclays US Aggregate	---	-0.79%	-2.38%	-2.05%	1.04%	2.19%
Bloomberg Barclays US TIPS	---	-1.43%	-2.27%	-1.24%	1.46%	1.37%
Commodities and Real Estate						
Bloomberg Commodity Index	173	-2.16%	-4.14%	-1.73%	-0.69%	-8.06%
Crude Oil ($/bbl)		$65.31	$60.42	$54.38	$46.59	$107.65
DJ US Select REIT	9,738	-2.55%	-0.06%	3.04%	3.98%	9.26%

Sources: Bloomberg, MSCI. Non-US index returns are shown in US Dollar terms and are considered to be currency unhedged. Total returns include dividend and income accruals and price changes. Returns for three and five years are annualized and assume the reinvestment of interest and dividend payments. Investors cannot invest directly in any of the above indices. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

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GLOSSARY

*The **Bloomberg Barclays Capital U.S. Aggregate Bond Index**, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government–related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.*

*The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Many of the sub-indices of the Municipal Index have historical data to January 1980. In addition, several sub-indices based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly.*

*The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.*

*The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.*

*The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.*

*The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.*

*The **MSCI ACWI Excluding the U.S.** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets without the inclusion of the United States. The MSCI full ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey* and United Arab Emirates.*

*The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.*

*The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.*

*The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.*

*The **Russell 3000** Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.*

*The **Russell Mid Cap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.*

*The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.*

*The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.*

*The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.*