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Market Monitor

- Including dividends, the S&P 500 posted its 11th straight monthly gain and its 8th consecutive quarterly advance. The U.S. benchmark closed September at a new record, its 39th all-time high this year.
- U.S. oil prices rose 7.7% in September, extending a third quarter rally to 10.5%.
- Foreign equity markets continued to widely outperform the U.S. during the third quarter and year-to-date.

U.S. equity markets ended the month and the quarter on a high note, with the S&P 500, NASDAQ Composite and small cap-focused Russell 2000 each closing at all-time highs. With its eighth consecutive quarterly gain, the S&P 500 capped its longest winning streak since the start of 2014. The NASDAQ Composite, finishing at a record for the 50th time this year, rose 1.11% in September and gained 6.06% and 21.67% respectively during the third quarter and YTD. The Dow Industrials closed the month within 7-points of its September 20 record, gaining 2.16% last month and advancing 5.58% during the third quarter to extend its YTD rally to 15.45%. A key driver behind equity momentum was a continuation of strong corporate earnings, with S&P 500 companies posting their first back-toback, double-digit quarterly earnings growth in six years. Investors were gratified after Commerce officials upwardly revised the pace of GDP growth during the second quarter from 3% to 3.1%, the fastest annualized growth rate for the economy since Q1 2015. Equity sentiment was also bolstered after officials from the White House and Congress released framework details surrounding President Trump's tax cut proposals. Meanwhile, the Federal Reserve kept interest rates unchanged at 1%-1.25% during their July and September policy meetings and said the central bank will begin reducing its balance sheet in October by selling $10B worth of stimulus-acquired bonds. Fed Chair Janet Yellen remains guardedly hawkish, still intent on one more rate increase this year and three more in 2018.

Financial markets continue to be resilient even as investors face uncertainty associated with historically high equity valuations, geopolitical tensions with North Korea over its ballistic missile threats against the U.S. and its allies, as well as devastation caused by three successive hurricanes. Despite short-lived spikes associated with these events, the CBOE VIX Volatility Index mostly traded within a narrow range of its long-term average and ended the quarter 15% below where it began. The U.S. Dollar Index capped its third straight quarterly decline, down 2.7% in the third quarter, extending its drop this year to 8.9%. Gold futures retreated 3.12% in September, its worst monthly performance this year. WTI crude oil prices rebounded from a June 21 bear-market low of $43.22, rising over 10% during the third quarter to end at $51.67/barrel.

By market capitalization, U.S. small cap companies outperformed large and mid caps in September and during the third quarter; but trailed them on a year-to-date (YTD) basis. The Russell 2000 Index, a broad measure of small cap equity performance, rose 6.24% last month, whereas the Russell Mid Cap Index gained 2.77%. During the third quarter, small cap stocks again outperformed with a 5.67% advance, while mid cap stocks trailed with a 3.47% gain. On a YTD basis, our large cap proxy, the S&P 500 advanced 14.24%, outpacing the Russell Mid Cap Index (+11.74%) and Russell 2000 small cap index (+10.94%).

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Value-oriented stocks outperformed growth stocks in September, while growth outperformed in the third quarter and YTD. The Russell 1000 Value Index rose 2.96% last month versus a 1.30% gain on the Russell 1000 Growth Index. In contrast, the Russell 1000 Growth Index rose 5.90% in the third quarter and 20.72% YTD, whereas the Russell 1000 Value Index gained 3.11% and 7.92% respectively. Within the S&P 500 Index, 8 of its 11 major sector groups advanced in September, led by Energy (+9.94%), Financials (+5.14%) and Industrials (+4%). Utilities (-2.74%), Real Estate (-1.39%) and Consumer Staples (-0.86%) declined last month. Technology (+8.65%) and Energy (+6.84%) led among third quarter gainers, while Consumer Staples (-1.35%) was the only sector posting a loss last quarter. For the year, Technology (+27.36%), Healthcare (+20.31%) and Materials (+15.82%) are up the most, while just two sectors, Energy (-6.63%) and Telecom (-4.69%), remain in negative territory this year.

The MSCI EAFE Index, which measures returns on developed markets outside the U.S. and Canada, outperformed U.S. equities in all three time periods. The performance of the MSCI EAFE Index surpassed that of the S&P 500 by 0.43% in September (2.49% vs. 2.06%), by 0.92% in the third quarter (5.40% vs. 4.48%) and by over 5.7% on a YTD basis (19.96% vs. 14.24%). In U.S. dollar denominated terms, the Stoxx Europe 600 gained 3.23% in September, and advanced 6.26% and 23.68% respectively in the third quarter and YTD. The U.K.-based FTSE 100 Index rose 3.17% last month, extending a third quarter gain to 4.85% and 15.65% YTD. Meanwhile, Japan's Nikkei 225 posted gains of 1.90% in September and 2.00% and 12.04% respectively for the third quarter and YTD.

Emerging markets equities, as measured by the MSCI Emerging Markets Index, underperformed relative to the U.S. in September, but still widely outperformed all developed markets in third quarter and YTD. Emerging market stocks declined 0.40% in September, slightly trimming its third quarter gain to 7.89%, and YTD advance to 27.78%. In U.S. dollar denominated returns, China's Shanghai Composite fell 0.85% last month, while gaining 8.36% and 15.18% respectively in the third quarter and YTD. South Korea's KOSPI Index also lagged in September (-0.41%), trimming its third quarter gain to 0.06% and its YTD advance to 24.90%.

Turning to bonds, U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, fell 0.84% in September, paring a third quarter gain to 0.38% and YTD return to 2.25%. The yield on benchmark 10- year Treasury notes ended the third quarter at 2.33%, up just two basis points during the quarter, while recovering from a September 7 low of 2.04%. Investment grade bonds, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, performed incrementally better than safe-haven U.S. government bonds, down 0.48% last month, which trimmed its third quarter and YTD gain to 0.85% and 3.14% respectively.

Municipal bonds underperformed government and other investment grade bonds, as the Bloomberg Barclays Municipal Bond Index fell 0.51% last month, trimming its third quarter gain to 1.06% and YTD return to 4.66%. At the other end of the credit spectrum, the Barclays U.S. Corporate High Yield Index, which measures returns of below-investment grade corporate bonds, outperformed all of its investment grade counterparts in all three time periods. High yield corporate bonds gained 0.90% in September and 1.98% and 7.00%, respectively, in the third quarter and YTD.

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