Kingston Wealth Management Group Presents:

MONTHLY ECONOMIC UPDATE

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MONTHLY QUOTE

"All things are difficult before they are easy."
- *Thomas Fuller*

MONTHLY TIP

Investing too conservatively in retirement could mean losing the chance to grow your money faster than the rate of inflation. Some fixed-income investments are earning less than 3% annually.

MONTHLY RIDDLE

There are several different types of these devices you can buy, but if you pick one, it may not work. What is this device?

Last month's riddle:
It has the scent of green paint, it pours like black paint, and it is the same color as a yellow bus. What is it?

Last month's answer:
Yellow paint. (All paint basically pours and smells the same.)

October 2017

THE MONTH IN BRIEF

In August, investors witnessed a terrible natural disaster and heard threats of war on America, and the S&P 500 still managed to gain 0.05%. September brought two terrible natural disasters and more threats of war on America, and the broad benchmark rose 1.93% and topped 2,500 for the first time. In other words, the bulls remained firmly in charge. European stocks rallied impressively last month, and oil went back above $50. U.S. economic indicators were a mixed bag, and home sales seemed to be cooling off. In what may be the month's most important development for investors, the Federal Reserve detailed its plan for reducing its vast securities portfolio.[1]

DOMESTIC ECONOMIC HEALTH

On September 20, the Federal Reserve announced a strategy to trim its $4.2 trillion balance sheet. The quantitative tightening will be gradual. Starting this quarter, the Fed will let $10 billion of bonds mature each month; in Q1 2018, that will increase to $20 billion a month. The monthly runoff rate will keep climbing by $10 billion each quarter until hitting a ceiling of $50 billion. According to Fed Chair Janet Yellen, this strategy is fixed, barring a "sufficiently great" threat to U.S. economic stability. At last month's Fed meeting, three-quarters of the central bank's policymakers forecast another rate hike before the end of the year.[2]

Three of the latest economic indicators to appear were underwhelming. Consumer spending only rose 0.1% in August, the Department of Commerce noted, with wages up 0.2%. July had seen a 0.3% increase in both categories. Retail sales slipped 0.2% in August, with core sales registering the same monthly decline.[3,4]

August payrolls showed a net gain of 156,000 workers – nothing special – and less than the gains of 200,000+ noted by the Department of Labor in the previous two months. The main jobless rate ticked up to 4.4%; the U-6 rate, including the underemployed, stayed at 8.6%. Annualized wage growth remained at 2.5%.[5]

Other indicators were more encouraging. The Institute for Supply Management's twin purchasing manager indices both rose for August. ISM's service sector PMI gained 1.4 points to 55.3, while the factory PMI hit 58.8, climbing 2.5 points to its highest level since April 2011. These readings indicate an atmosphere of fast growth for both manufacturing and non-manufacturing businesses.[4,6]

The Bureau of Economic Analysis made its final estimate of Q2 growth, bumping the number up 0.1% to 3.1%. Durable goods orders rose 1.7% in August, and core capital goods orders improved 0.9%. Consumer confidence held steady last month in the wake of calamitous storms – the Conference Board index eased down but 0.6 points to 119.8, and the University of Michigan index moved just 0.2 points lower from its preliminary September reading to 95.1.[3,4]

Was inflation making a comeback? Maybe, maybe not. The Consumer Price Index rose 0.4% in August, but the Fed's preferred inflation measure, the PCE price index, showed just a 0.1% gain. The year-over-year gain in the headline CPI was 1.9% through August, just underneath the Fed's long-stated 2.0% goal; for the headline Producer Price Index, the 12-month advance was 2.4%.[3,4]

GLOBAL ECONOMIC HEALTH

European central banks appear to be poised to begin normalizing economic policy. Many analysts believe that the European Central Bank will present plans to taper its long-running stimulus program this month. The ECB believes the euro area economy will grow by 2.2% this year, which would be the fastest pace since 2007. The Bank of

England delivered a strong hint last month that it might raise its main interest rate: BoE Governor Mark Carney stated that a hike could come in the "relatively near term."[7,8]

Factory growth in important Asian economies accelerated in September. China's official factory PMI reached its highest level in five years; this news came on the heels of 6.9% growth for the P.R.C. economy in the first half of the year, topping government projections. Manufacturing activity in South Korea expanded at the best pace since 2015 last month; factory growth was also indicated by improved PMIs in Indonesia and Taiwan. India, unfortunately, was seeing a dramatic economic slowdown. Its latest growth snapshot showed GDP of 5.7% in Q2, as opposed to 9.1% in Q2 2016; last quarter was the poorest for its economy since Q1 2014.[9,10]

WORLD MARKETS

Major European stock exchanges soared last month. Germany's DAX jumped 7.39%. France's CAC 40 added 5.92%. The FTSE Eurofirst 300 advanced 5.29%, and Russia's Micex surged 4.43%. Lesser gains came for Spain's IBEX 35 (1.85%) and the United Kingdom's FTSE 100 (0.48%).[11]

Big gains occurred elsewhere. Argentina's MERVAL climbed 11.24% for the month, and in Tokyo, the Nikkei 225 improved 5.13%. Brazil's Bovespa rose 4.15%, while Canada's TSX Composite gained 3.66%. The MSCI World posted a 2.08% advance; South Korea's KOSPI benchmark went north 1.26%. As for September losers, Mexico's Bolsa fell 1.89%; Hong Kong's Hang Seng, 0.76%; MSCI's Emerging Markets index, 0.55%; China's Shanghai Composite, 0.48%; India's Sensex, 0.33.[11,12]

COMMODITIES MARKETS

The big story here was the ascent of WTI crude. Oil settled at $51.64 on September 29, completing a 9.66% rise for the month. Gasoline futures, on the other hand, fell hard – they dropped 25.24% during September after a major rally in late August. Heating oil futures advanced 3.08%, while natural gas futures retreated 0.40%.[13]

There were more gains than losses in the ag sector. Sugar was the only major crop that retreated last month, declining 8.12%. Wheat rose 9.51%; cocoa, 5.54%; corn, 4.24%; soybeans, 3.31%; coffee, 0.47%.[13]

While the U.S. Dollar Index improved 0.43% to a month-ending settlement of 93.07, all key metals fell. Gold lost 2.97% for the month; silver, 4.44%; platinum, 8.62%; copper, 4.74%. On the COMEX, gold finished September at $1,282.50; silver, at $16.69.[13,14]

REAL ESTATE

Both new and existing home sales slowed in August. The latest report from the National Association of Realtors showed resales down 1.7%; Census Bureau data had new home buying slumping 3.4%. A month earlier, new home sales had fallen 5.5%, while existing home purchases dipped 1.3%. High prices and slim pickings were hindrances to buyers. The latest 20-city S&P/Case-Shiller home price index (July) showed a 0.3% gain, lifting the 12-month advance from 5.6% to 5.8%. The NAR's pending home sales index staged a 2.6% retreat in August.[3,4]

Developers built fewer projects during the summer. Housing starts were down 0.8% in August after a (revised) 2.2% retreat in July, according to the Census Bureau. The Bureau's August report on new construction activity did show a 5.7% rebound for building permits, more than offsetting the 4.1% July fall.[4]

For those who could buy or refinance, mortgage rates were still cheap. They barely budged last month; comparing Freddie Mac's August 31 and September 28 Primary Mortgage Market Surveys, only the average rate on the 5/1-year ARM showed real movement, up 0.06% to 3.20%. The respective average rates for 30-year and 15-year FRMs ticked just 0.01% higher to 3.83% and 3.13%.[15]

LOOKING BACK...LOOKING FORWARD

The Russell 2000 has lagged the big three all year, but it made up some serious ground in September, rising 6.08% across the month to 1,490.86. America's prime small cap benchmark finished the third quarter up 9.85% YTD. Closing September at 22,405.09, the Dow Jones Industrial Average gained 2.08% for the month. As noted earlier, the S&P 500 rose 1.93% to 2,519.36; the Nasdaq Composite improved 1.05% to 6,495.96. The CBOE VIX "fear index" fell 10.20% to an extremely low close of 9.51 on the month's last trading day, taking its YTD loss to 32.26%.[16,17,18]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+13.37	+23.49	+13.35	+6.12
NASDAQ	+20.67	+23.28	+21.69	+14.05
S&P 500	+12.53	+17.12	+14.97	+6.50
REAL YIELD	9/29 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.49%	0.02%	-0.77%	2.27%

Sources: finance.google.com, wsj.com, bigcharts.com, treasury.gov – 9/29/17[18,19,20,21]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

Will we see a fall rally start in October? It could happen. September ended with the dollar at a 33-month low against a basket of other key currencies, a situation that points toward higher, near-term profits for U.S. firms, while also hinting at greater inflation pressure. This may bode well for the S&P 500's financial sector, and corporate earnings clearing forecasts could lift all boats. As personal finance site NerdWallet notes, stock market analysts are anticipating slightly more than 4% earnings growth for Q3, which is lower than preceding quarterly forecasts, but still solid. Volatility has been on holiday – the first three quarters of this year saw only eight trading days with 1% swings in the S&P. (Over the past 50 years, the yearly average is 52 days.) Low volatility breeds investor confidence. This year, institutional investors have maintained their cool even in the face of the year's most unnerving headlines. So, absent of black swan events, the market may be poised for more gains.[22]

UPCOMING ECONOMIC RELEASES: As October unfolds further, investors will await these important news releases: the September Challenger job-cut report (10/5), the Department of Labor's September employment snapshot (10/6), the September PPI (10/12), September retail sales, the September CPI, and the initial University of Michigan consumer sentiment index for October (10/13), September industrial output (10/17), a new Federal Reserve Beige Book and September groundbreaking and building permits (10/18), September existing home sales (10/20), September durable goods orders and new home sales (10/25), September pending home sales (10/26), the month's final University of Michigan consumer sentiment index reading and the first estimate of Q3 growth from the Bureau of Economic Analysis (10/27), the September PCE price index and September personal spending report (10/30), and the Conference Board's latest consumer confidence index (10/31). The Federal Reserve's next policy announcement occurs November 1.

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