



Quarterly Economic Update

from Ray Castaldi, CLU, ChFC

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QUOTE OF THE QUARTER

***“Keep your eyes on the stars,
and your feet on the ground.”***

- Theodore Roosevelt

QUARTERLY TIP

Women should plan for retirement with the assumption that they may live by themselves for ten years or longer. After being widowed or divorced, this is a real possibility.

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THE QUARTER IN BRIEF

Encouraging economic data and a series of unsettling news headlines vied for Wall Street’s attention in the third quarter, and ultimately, investors were not shaken. The S&P 500 rose 3.96% over three months, getting a lift from upbeat manufacturing and consumer confidence readings as well as earnings news. Away from our shores, the economies of China and the euro area showed improvement, and foreign stock benchmarks rallied along with ours. A slumping dollar offered no big spark for the commodities markets. The residential real estate market looked to be cooling off. The quarter was filled with major news stories, yet the bulls sauntered through the disruptions.¹

DOMESTIC ECONOMIC HEALTH

Consumer confidence barometers were among the most impressive economic indicators last quarter. By August, the Conference Board’s index topped 120, far above its origin score of 100; it was at 119.8 in September. The University of Michigan’s consumer sentiment gauge ended Q3 exactly where it ended Q2 – at a solid mark of 95.1, rebounding from a July dip to 93.4.^{2,3}

The economy’s two key purchasing manager indices were also elevated well above the 50 level, which also cheered Wall Street. In September, the Institute for Supply Management’s factory PMI jumped to 60.8 – rising above 60 for the first time in 13 years, after readings of 58.8 in August and 56.3 for July. ISM’s service sector PMI came in at 53.9 for July and 55.3 for August (at this writing, the September reading was pending).^{4,5}

Hiring eased during the quarter. Employers added 156,000 net new jobs in August after a July gain of 189,000. The main jobless rate ticked up from 4.3% in July to 4.4% in August, while the U-6 rate, tracking unemployment and underemployment, held at 8.6%.^{6,7}

Inflation showed definite signs of picking up, or at least, nearing the Federal Reserve’s 2.0% target. The Consumer Price Index showed a 12-month advance of 1.7% in July, then 1.9% in August. In both those months, core prices rose 1.7% year-over-year. The Producer Price Index displayed but a 1.9% yearly advance in July, which rose to 2.4% a month later.²

GLOBAL ECONOMIC HEALTH

News about the European economy was increasingly positive, even as Spain's Catalonia region threatened to secede and Brexit negotiations continued. By August, euro area joblessness had fallen to 9.1%, an 8-year low; unemployment was down to a record-low 5.6% in Germany. Euro area consumer confidence rose to a high unseen since prior to the credit crisis, as the summer ended. In September, the European Central Bank forecast growth of 2.2% for the region, which could lead the ECB to wind down its longstanding bond-buying effort.¹¹

Late in the quarter, China's official statistics bureau projected 6.9% GDP for the year; Nomura, JPMorgan Chase, and Citibank upgraded their forecasts for China's 2017 growth to 6.8%. When it came to India, the outlook was far less rosy; as Q3 ended, the Asian Development Bank cut its GDP forecast for India's current fiscal year by 0.4% to 7.0%, and Fitch Ratings slashed theirs by 0.5% to 6.9%. Particularly alarming was news that the Indian manufacturing sector had advanced only 1.2% year-over-year through July.^{12,13}

With personal wages improving annually at a decent 2.5%, did personal spending increase? Not as much as economists hoped. The gain was 0.3% in July, but merely 0.1% in August.^{7,8}

Other data points from Q3 included a minor retreat for manufacturing production (down 0.1% in July and 0.3% in August), a rise and fall for industrial production (up 0.4% for July, down 0.9% just a month later), and a fall and rise in durable goods orders (which sank 6.8% in July but rose 1.7% for August). Retail sales were 0.3% higher in July and declined by 0.2% for August.^{2,8}

Few investors thought the Federal Reserve would tinker with interest rates in the third quarter, and it did not. It did announce a strategy to cut its \$4.2 trillion balance sheet at its September policy meeting. Beginning in Q4, the Fed will allow \$10 billion in bonds per month to run off, and the pace will accelerate to \$20 billion per month in Q1, \$30 billion per month in Q2, etc., to a monthly goal of \$50 billion.⁹

Cybercrimes were also conspicuous in the quarter. Credit reporting titan Equifax had its databases hacked, leaving the personal information of more than 140 million Americans at risk. Whole Foods and Sonic also suffered major identity theft breaches.¹⁰

WORLD MARKETS

As September's final trading day ended, 13-week (quarterly) gains were widespread among foreign benchmarks. The MSCI Emerging Markets index surged 7.02% in Q3. Not far behind was the Hang Seng; Hong Kong's index soared 6.95%. The Shanghai Composite rose 4.90%. MSCI's World Index posted an advance of 4.39%.^{14,15}

Quarterly improvements also occurred for the CAC 40 in France, which added 4.08%, and the DAX in Germany, up 4.09%. Canada's TSX Composite rose 2.98%; Japan's Nikkei 225, 1.61%; India's Sensex, 1.45%. The United Kingdom's FTSE 100 gained 0.82%. Australia's All Ordinaries was an exception, putting up a Q3 loss of 1.11%.¹⁵

COMMODITIES MARKETS

The U.S. Dollar Index weakened by another 2.66% in the third quarter, yet the broad raw materials market did not rally strongly in response; although, select futures did. Heating oil made the biggest advance among notable commodities, rising 21.9%. Elsewhere on the NYMEX, oil added 12.2%, closing at \$51.64 on September 29.^{16,17}

Gold fell after hitting a YTD peak in the quarter, but ended Q3 at \$1,284.80, its lowest close in more than a month. The yellow metal rose 3.4% in Q3. Silver prices increased only 0.3% to \$16.68 across the quarter. Platinum went up 1.2%; palladium, 12.0%. Amid the base metals, zinc gained 15.0%; aluminum, 11.4%; copper, 9.2%. Cocoa stood out from most other crops with a 7.4% advance. Wheat lost 12.3%; cotton, 8.3%; corn, 4.1%. Natural gas ended up losing just 0.86% in three months.^{16,18}

REAL ESTATE

Prospective home buyers looked around and saw fewer homes on the market in the third quarter, along with fewer homes they could actually afford. According to the National Association of Realtors, the median existing home sale price in August was \$253,000. The latest available edition of the 20-city S&P/Case-Shiller home price index (July) showed prices advancing 5.9% annually.^{8,19}

By August, the NAR reported that existing home sales had declined in four of the last five months. They were down 1.3% in July and another 1.7% a month later, with the sales pace reaching a 12-month low. The Census Bureau's picture of new home buying was no better: a 5.5% stumble for new residential sales in July, a 3.4% dip in August.^{2,19}

Pending home sales also trended downward, falling 2.6% in August after a mild descent of 0.8% for July. Groundbreaking also lessened during the quarter. The Census Bureau identified a 2.2% reduction in housing starts for July, lessening to 0.8% in August. Building permits did rise 5.7% in the eighth month of the year after falling 4.1% during the seventh.^{2,8}

Between June 29 and September 28, fixed-rate home loans grew slightly more expensive, according to Freddie Mac's Primary Mortgage Market Survey. On September 28, the survey showed the following interest rates: 30-year fixed, 3.83%; 15-year fixed, 3.13%; 5/1-year adjustable, 3.20%. The numbers from the June 29 snapshot: 30-year fixed, 3.88%; 15-year fixed, 3.17%; 5/1-year adjustable, 3.17%.²⁰

LOOKING BACK...LOOKING FORWARD

Tech shares and small caps outran the blue chips across summer, but not by much. During a fine quarter for U.S. stocks, the Russell 2000 nearly matched the gain on the Nasdaq, rising 5.33% and taking its YTD advance to 9.85%. The CBOE VIX volatility index fell 14.94% in Q3, putting its YTD loss at 32.26%. On September 29 at the closing bell, the key benchmarks settled as follows: Dow Jones Industrial Average, 22,405.09; S&P 500, 2,519.36; Nasdaq Composite, 6,495.96; Russell 2000, 1,490.86; CBOE VIX, 9.51.^{1,21}

% CHANGE	Y-T-D	Q3CHG	1-YR CHG	10-YR AVG
DJIA	+13.37	+4.94	+23.49	+6.12
NASDAQ	+20.67	+5.79	+23.28	+14.05
S&P 500	+12.53	+3.96	+17.12	+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: wsj.com, bigcharts.com, treasury.gov - 9/29/17^{1,21,22,23}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

Investors think of the fourth quarter as a "sweet spot" for the market, and they can cite history to affirm their belief. Since 1950, the S&P 500 has advanced in 79.1% of fourth quarters. Its average Q4 performance from 1950-2016: +3.9%. Both the Dow and S&P are entering the quarter on 6-month winning streaks, and bulls seem to be okay with the prospect of a Q4 rate hike and the Federal Reserve thinning its bond holdings. Then again, there is no sure thing on Wall Street. As an example, September has long been characterized as a bad month for equities, but that was not the case this year. Confidence is certainly abundant and anticipation is high as a new earnings season begins, and if history repeats itself, 2017 will go into the books as a strong year for U.S. equities.²⁴

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9 Simple Ways You Can Help Veterans

By, Betsy Anderson and Jacqueline Gullede, CNN

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Most Americans will never serve in the military or fight for their country. Yet there are countless ways that everyone can help these veterans, who often return home from war to face their most difficult battles.

Those severely injured may need to learn how to live with the loss of a limb or limited mobility. For others, brain injuries or post-traumatic stress disorder can make the return to civilian life a struggle.

Here are nine simple things you can do to make a difference for the more than 23 million American veterans:

1. Give a veteran a ride

Medical care may be needed for some veterans for the rest of their lives. Disabled American Veterans provides free transportation to men and women who can't travel to Veterans Affairs medical facilities on their own. You can volunteer to drive a van for those who need a lift.

2. Donate frequent flier miles

[The Fisher House Foundation](#) has a network of homes on the grounds of military and VA hospitals around the country. These homes help family members be close during the hospitalization of a loved one for a combat injury, illness or disease. Fisher House operates the [Hero Miles Program](#), using donated frequent flier miles to bring family members to the bedside of injured service members. You can also [volunteer or donate household items](#).

3. Sponsor a companion dog for veterans with PTSD

More than a third of all Iraq and Afghanistan veterans have or will experience post-traumatic stress disorder. And veterans of past wars are still dealing with the ghosts of their time in the service. Coping with PTSD can put stress on not just veterans but also their families and friends.

[Puppies Behind Bars](#) is a program in which prisoners train companion dogs for veterans with PTSD. Donors can sponsor a dog and receive updates on the dog's training and life with its veteran. (If you know a veteran dealing with PTSD, the VA offers the [PTSD Coach Online](#) to help veterans learn to manage symptoms, come up with ways to cope and find professional help.)

4. Help build a home for severely injured vets

Severely injured veterans often come home needing a place to live that better accommodates their physical disabilities. [Building Homes for Heroes](#) builds specially modified homes for veterans that help them live independently. These homes are provided at no cost to the veterans. The organization also provides financial planning services.

5. Keep veterans off the streets

In times of war, exhausted combat units were removed from the battlefield to "stand down" in a place of relative security to rest. The Department of Veterans Affairs' Stand Down program is designed to help homeless veterans "combat" life on the streets. Stand Downs are usually one- to three-day events to provide food, shelter, clothing and health screenings to homeless and unemployed veterans. To find a Stand Down program in your community, contact your local VA hospital in the [VA Medical Center Directory](#).

A phone call can also make difference in the life of a veteran who is homeless or at risk of becoming homeless. Call 877-4AID-VET, or 877-424-3838, to be connected 24 hours a day, seven days a week with help at the VA.

6. Send a care package or a letter

[Operation Gratitude](#) has sent more than 1.5 million individually addressed care package to the military community. The packages are sent to current military members as well as veterans, wounded warriors and their caregivers. As more American troops return to civilian life, the Operation Gratitude veterans program has been growing. It also has a [letter writing campaign](#) encouraging everyone to write handwritten letters of gratitude to veterans.

7. Help them take flight

[The Honor Flight Network](#) helps veterans of the "greatest generation" make a free pilgrimage to the World War II Memorial on the National Mall in Washington. You can [volunteer](#) to escort these men and women on the flight to see this memorial. Honor Flight also helps terminally-ill veterans who served in any conflict visit memorials to those wars in Washington as well.

8. Share their stories

So many veterans' stories have been left untold, but the Library of Congress is collecting the tales of veterans of every war with the [Veterans History Project](#). If you are related to a veteran or know one who has a story to tell, the Library of Congress wants to hear it. Help veterans share their stories before it's too late.

9. Say thank you

It's simple, but it can make an impact. And so many veterans have never heard the words "thank you." If you know a veteran or see someone in a military uniform, say something. It may make his or her day and yours