

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished a rough October at 25,115, down -5.07% for the month and +1.60% year-to-date. The S&P 500 closed October 31 at 2,712, down -6.94% for the month and +1.43% so far for the year. The NASDAQ Composite fell -9.20% in October, still up +5.83% so far in 2018. Small company stocks as measured by the Russell 2000 ended October at 1,511, falling -10.91% for the month, down -1.57% year-to-date. Traditionally defensive Consumer Staples (+2.1%) and Utilities (+1.9%) were the best performing sectors for the month.

"Yes, everywhere you look there are problems. Technology stocks are tanking, and industrials are seeing rising costs and flagging demand, thanks to tariffs." *Barron's The Trader*, by Ben Levisohn, Oct 26, 2018

Volatility Returns - Our View

A summer of strong gains and optimism in the markets reversed sharply in October, as volatility returned and investors experienced losses across stocks and bonds, U.S. and international markets. While the drawdown came suddenly, many of the negative factors being attributed to the weakness have been apparent for some time. Tariffs and persistent trade uncertainty appear to have been a driver, while steadily rising interest rates were also referenced. Narrow leadership, or much of the gain in the overall market being driven by a small number of companies, had a negative effect in October as Amazon and Netflix each fell more than 20% for the month on worries of slowing growth. Even as 78% of companies have beaten their earnings estimates for the 3rd Quarter, and earnings are growing at +24%, many companies are seeing their stock price fall as market participants anticipate a peak in profitability with wage inflation, tariffs, and the dwindling effects of tax reform beginning to slow growth starting next year.

Despite the change in market sentiment, and the sharp drawdown in the major stock indices, fundamental economic indicators remain solid and point toward a more stable near term outlook. Unemployment remains below 4%, a level rarely reached during peacetime, and GDP growth has seen its best 6 month stretch in 4 years. Consumer confidence, rising real wages, and low unemployment are expected to support consumer spending in the near term, an important component of U.S. GDP. Most observers expect these positive indicators to continue their tug of war with the real and growing threats to growth outlined above. Volatility is expected to continue through the late stages of this cycle. With an increasingly uncertain outlook, investors are encouraged to evaluate their risk levels and ensure it matches their time horizon and goals. Remaining disciplined in a prudent and diversified asset allocation, through market cycles and bouts of volatility, continues to be our recommended approach.

"Investors say the recent uptick in volatility reflects a number of worries clouding the global outlook. Technology shares, which led the bull market higher in the first half of the year, have struggled to regain their footing after a punishing October. Many have also been wary of risks like slowing growth in China and uncertainty surrounding a U.S.-China trade agreement." (*The Wall Street Journal, Dow, S&P Rise Despite Tech Sector Drop*, by Riva Gold and Akane Otani, Nov. 5, 2018)

GDP Growth

GDP grew by 3.5% in the 3rd Quarter, driven by strength in consumer and government spending. Including the 2nd Quarter's 4.2% growth, the past 6 months have seen the strongest GDP growth since 2014. Business investment, however, unexpectedly grew at only a modest 0.8%. Some suspect this signals that companies' uncertainty surrounding trade policy and tariffs may be limiting their ability to make long-term investments in plants and equipment. This dynamic is being closely watched in economic releases and earnings calls.

MARKET METRICS

| INDEX OR METRIC | CLOSE AS OF 09/30/2018 | CLOSE AS OF 10/31/2018 | CHANGE PREVIOUS MONTH END | 2018 YTD % CHANGE |
|------------------------------|---------------------------|---------------------------|---------------------------------|----------------------|
| Dow Jones Industrial Average | 26,458.31 | 25,115.76 | -1,342.55 | +1.60% |
| S&P 500 | 2,913.98 | 2,711.74 | -202.24 | +1.43% |
| NASDAQ Composite | 8,046.35 | 7,305.898 | -740.45 | +5.83% |
| RUSSELL 2000 | 1,696.57 | 1,511.41 | -185.16 | -1.57% |
| Fed Funds Rate | 2.0% - 2.25% | 2.0% - 2.25% | UNCHANGED | |
| 2-Year Treasury | 2.81% | 2.87% | +.06% | |
| 10-Year Treasury | 3.05% | 3.15% | +.10% | |
| Crude Oil \$ per Barrel | \$73.75 | \$65.31 | -\$7.94 | +8.09% |
| Gold \$ per Troy oz. | \$1,196.20 | \$1,215.00 | +\$18.80 | -7.20% |
| UK Pound in U.S. \$ | \$1.3041US = 1£ | \$1.2778US = 1£ | \$ STRONGER | -5.54% |
| Euro in U.S. \$ | \$1.1615US = 1€ | \$1.1331US = 1€ | \$ STRONGER | -5.64% |
| Canada \$ per U.S. \$ | \$1.2926C \$1.00 US | \$1.31325C \$1.00 US | \$ STRONGER | +4.81% |
| Japan Yen per U.S. \$ | 113.585¥ = \$1.00 US | 112.855¥ = \$1.00 US | \$ WEAKER | +0.18% |



NEW COVENANT TRUST COMPANY

200 E 12th Street, Jeffersonville, IN 47130
800-858-6127 option 6 newcovenanttrust.com