

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished September at 26,458, up 1.90% for the month and +7.04% year-to-date. The S&P 500 closed September 28 at 2,914, up 0.43% for the month and 8.99% so far for the year. The NASDAQ Composite fell -0.78% in September, still up 16.56% so far in 2018. Small company stocks as measured by the Russell 2000 ended September at 1,697, falling -2.54% for the month, up 10.49% year-to-date. Health Care (+14.04%) and Industrials (+9.46%) were the best performing sectors in the third quarter.

"But the rally has come at a cost: U.S. stocks have become increasingly expensive compared with major indexes elsewhere, something that some analysts worry could leave the market vulnerable to a snapback heading into the final months of the year." [The Wall Street Journal, U.S. Stocks Widen Lead Over Rest of the World](#) by Akane Otani, Oct. 1, 2018

3rd Quarter Review and Outlook

U.S. markets saw strong gains in Q3, with the S&P 500 advancing 7.20% for the quarter, driven by 20%+ corporate earnings growth and solid economic fundamentals such as low unemployment and accelerating GDP growth. These positive signals have been in a balancing act with worrisome risks like rising interest rates and a global trade dispute, although markets seemed to have focused more on the positives during the quarter. Metrics like median household income and household net worth reached all-time highs, and the Consumer Confidence Index hit its highest level in 18 years. Persistently low unemployment is expected to support discretionary income, consumer confidence, and consumer spending in the near term.

Despite historically strong measures in some areas of the economy, risks of a slowdown are becoming more pronounced. While corporate profits have driven equity returns this year, and are expected to continue to grow at 20% through the end of 2018, expectations are for growth to slow to 7% at the beginning of next year as the effects of tax reform drop off the year over year comparison. GDP growth is also expected to have peaked, according to estimates from the Congressional Budget Office and the Federal Reserve. As growth moderates, interest rates are expected to continue to rise, a further drag on growth. Each of these dynamics are in addition to new tariffs and global trade tensions which have gone on longer and at a greater scale than what most observers had initially predicted. While current underlying strength in the economy means recession is unlikely in the immediate term, the above risks contribute to an increasing uncertainty and potential for volatility heading into 2019 and beyond. The final stages of up markets typically include increased appetites for risk and a fear of missing out. Investors are encouraged to note the above risks and to plan with a long-term, goals-based perspective.

"There may also be trouble lurking below the surface of the market. The S&P 500 is up 9% so far in 2018, but those gains have been driven by a dwindling number of stocks. Indeed, shares of about 200 of the companies in the index are down this year and many of them have entered bear market territory. Narrowing leadership of a rising market can be a worrisome sign since it can indicate that investors are betting that a small group of big companies can breeze past problems that are weighing on others. Indeed, Apple and Amazon.com account for about a quarter of the S&P 500's return this year." (The Wall Street Journal, [Blockbuster Deals and Stock Market Records Are Signs of a Top](#), by Justin Lahart, Sept. 28, 2018)

Employment Reports

The private sector added 230,000 jobs in September, more than forecasted, according to the most recent ADP report. The largest segment of job growth was in medium-size businesses, or those that employ between 50 and 499 workers. Economists expect unemployment to tick down to 3.8%, from the current 3.9%, in the next employment report. The tight labor market is especially benefiting workers in warehouse, retail, and restaurant jobs, where competition for workers is high and wages are increasing faster than the overall pace. As these increased labor costs affect the prices for goods and services, inflation could be accelerated.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 08/31/2018	CLOSE AS OF 09/30/2018	CHANGE PREVIOUS MONTH END	2018 YTD % CHANGE
Dow Jones Industrial Average	25,964.82	26,458.31	+493.49	+7.04%
S&P 500	2,901.52	2,913.98	+12.46	+8.99%
NASDAQ Composite	8,109.54	8,046.35	-63.18	+16.56%
RUSSELL 2000	1,740.75	1,696.57	-44.18	+10.49%
Fed Funds Rate	1.75% - 2.0%	2.0% - 2.25%	+0.25%	
2-Year Treasury	2.62%	2.81%	+0.19%	
10-Year Treasury	2.86%	3.05%	+0.19%	
Crude Oil \$ per Barrel	\$69.80	\$73.75	+\$3.45	+21.23%
Gold \$ per Troy oz.	\$1,206.70	\$1,196.20	-\$10.50	-8.64%
UK Pound in U.S. \$	\$1.2998US = 1£	\$1.3041US = 1£	\$ WEAKER	-3.60%
Euro in U.S. \$	\$1.1635US = 1€	\$1.1615US = 1€	\$ STRONGER	-3.27%
Canada \$ per U.S. \$	\$1.30395C \$1.00 US	\$1.2926C \$1.00 US	\$ WEAKER	+3.16%
Japan Yen per U.S. \$	110.885¥=\$1.00 US	113.585¥=\$1.00 US	\$ STRONGER	+0.83%



NEW COVENANT TRUST COMPANY

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