



### Last Week:

- Stocks touched record highs mid-week, before a late week sell-off took most indices into negative territory for the week
- The Dow Jones Industrial Average slipped 11 points, or less than -0.1%
  - Best for the week were Boeing (+3.9%), **Verizon** (+2.9%), Chevron (+2.5%), and **Pfizer** (+1.9%)
  - Worst were Nike (-5.4%), Home Depot (-5.2%), **Visa** (-3.2%), and **Microsoft** (-2.0%)
- Dow Transports careened into oncoming traffic, -1.5%
- Dow Utilities were the week's sole winner, gaining 1.8%, even as bond yields sold off
- The S&P 500 lost -1%
  - Top performing groups were Telecommunications, Energy, and Utilities
  - Worst were Consumer and Technology
  - It's a statistically insignificant sample size, but in prior instances when the S&P 500 recorded gains in each month from April through September, the fourth quarter of those years tended to be strong as well. The chart below provides a historical review, but not a forecast

#### S&P 500 Up in April, May, June, July, August, and September

S&P 500 Performance (%)								
Year	April	May	June	July	Aug	Sept	Oct	Q4
1935	9.82	3.23	6.89	8.20	1.44	3.11	7.51	15.88
1958	3.18	1.75	2.35	4.31	1.19	4.84	2.54	10.29
1980	4.11	4.66	2.70	6.50	0.58	2.52	1.60	8.21
2009	9.39	5.31	0.02	7.41	3.36	3.57	-1.98	5.49
2017	0.91	1.16	0.48	1.93	0.05	1.93	2.22	6.12
2018	0.27	2.16	0.48	3.60	3.03	0.43		
Average							2.38	9.20
Median							2.22	8.21
Avg All Periods Since 1928							0.61	1.90

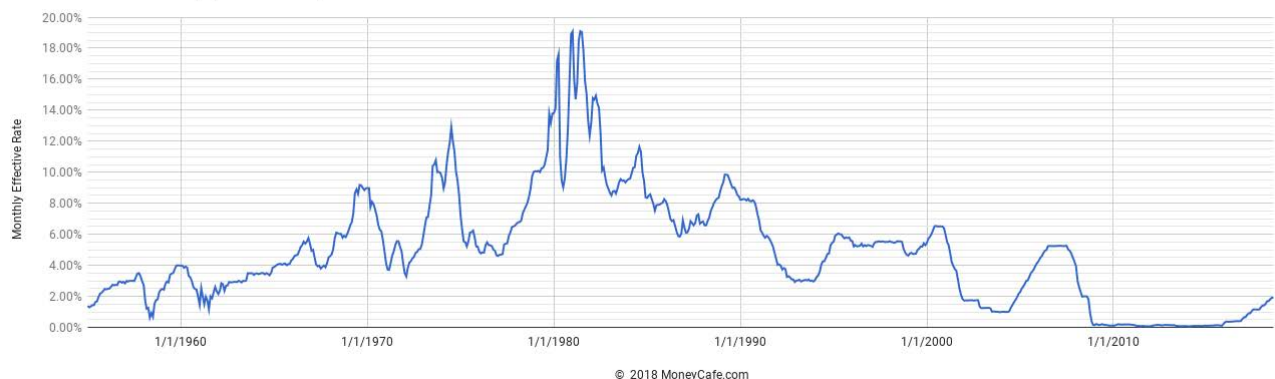
Source: Bespoke

- The real carnage for the week was found in smaller companies, with the S&P Midcap 400 dropping -2.6% while the S&P Smallcap 600 slid -3.9%
- NASDAQ's Composite lost -3.2%, amid a rout in previous high-flyers across internet, semiconductors, and other technology groups. Presumably, Technology stocks also were hurt by news that a Chinese company's components used in Apple and Amazon devices may have been used for hacking purposes. NASDAQ's 1.8% drop Thursday was its worst one-day performance since June 25
- Decliners outnumbered advancers by a 3-1 margin
- The VIX jumped to its highest level in eight months, though its absolute level of 14 remains quite subdued from a historical perspective
- Crude oil gained \$1.09/barrel, ending the week at \$74.34 – that's for West Texas Intermediate. The global oil benchmark, Brent, lifted above \$86/barrel midweek, with Iranian sanctions crimping supply



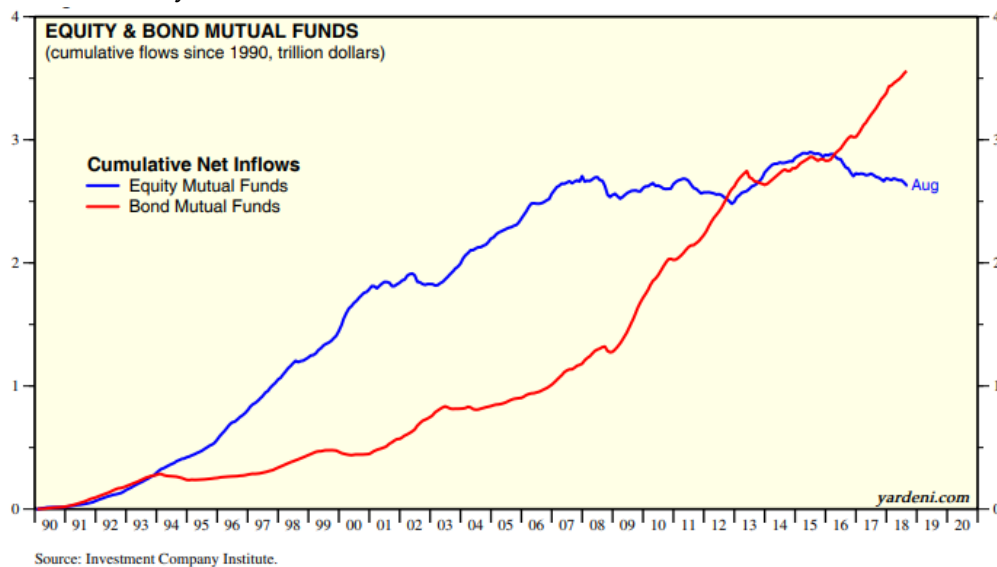
- Gold gained \$9.70/ounce, closing at \$1,201.20
- The Euro lost almost a percent against the U.S. dollar, closing at \$1.1589
- Overseas stocks were down nearly across the board, with Brazil (+3.8%) a rare exception
  - Hong Kong -4.4% and France -2.4% stood out to the downside
- There continues to be a wide divergence in European sovereign debt yields
  - Italian 10-year government bonds yield 3.58%, while German 10-year government bond yields fell to 0.53%
- In the first nine months of 2018, 83% of initial public offerings were for companies that were unprofitable during the year leading up to their debut, the highest proportion in the history of IPO data that dates back to 1980
- Guardant Health surged 47% in the early moments of its IPO debut
- Cloudera and Hortonworks are combining in a merger of equals; Cloudera's stock promptly rallied 10%
- Barnes & Noble said it is considering putting itself up for sale. Its stock shot up 20% on the news
- General Electric abruptly fired CEO John Flannery, 14 months into the job, replacing him with former **Danaher** CEO Lawrence Culp
- **Amazon** announced it is raising its minimum wage to \$15/hour for all employees (but is eliminating/reducing bonuses and stock grants)
- Tesla CEO Elon Musk thumbed his nose at securities regulators, referring to the Securities & Exchange Commission in a tweet as the "Shortseller Enrichment Commission." As part of Tesla's settlement with the SEC, it must monitor Musk's Twitter usage. As Old Man Barron's opined: "How's this for a tweet? Troubled Entrepreneur Should Lose Attitude"
- Philadelphia Federal Reserve President Patrick Harker said he is one of four Fed officials who don't back a December interest rate increase. "I have not seen an acceleration of inflation yet [\$15 minimum wages might do the trick!]. I don't think there is a rush. I don't think we have to rush the normalization process, going back to neutral." Perhaps his view on the next rate hike is correct, but Fed Funds still aren't back to 2009 levels. Is this the new normal, or the new neutral?

Federal Funds Rate History (Effective Rate) - 1955 to Present

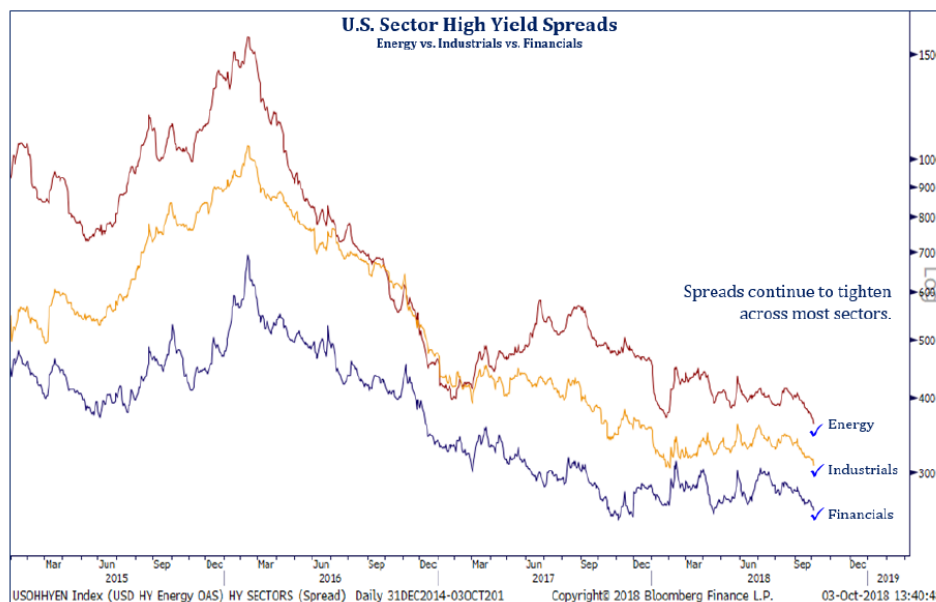




- Mr. Harker might not see an acceleration in inflation, but apparently the Treasury market does, reflecting the highest wage inflation since 2009. 10-year Treasury yields rose to 3.2%, their highest level since 2011, up from the 3.05% area a week ago. The 2-year Treasury yield of 2.88% is the highest since June 2008
- Over the last six years, US bonds have returned an average of 1.3% annually, their lowest six-year return in history
  - Yet bond mutual funds have seen accelerating inflows, while equity funds have seen negligible flows in recent years



- Meanwhile, high-yield spreads continue to narrow, as shown in the accompanying chart



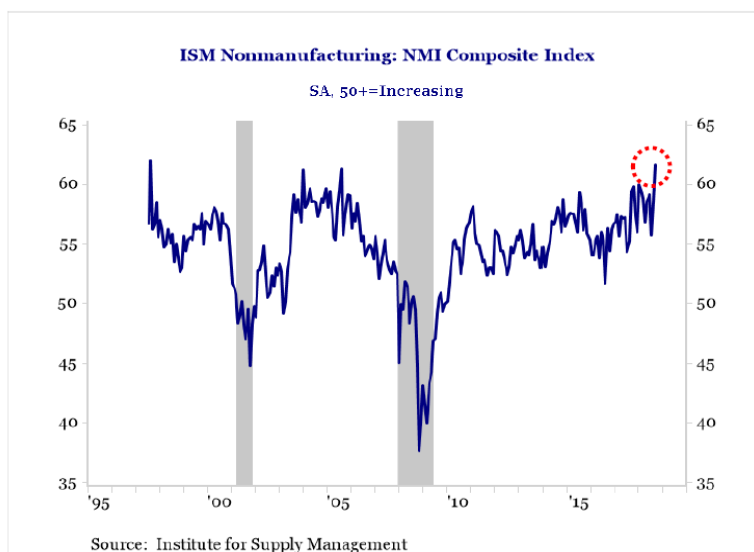
Source: Strategas



- Mortgage rates have followed suit, with 30-year rates approaching 5%
- The S&P Homebuilders ETF slid again Friday, bringing its consecutive losing streak to a record 13 sessions
- Non-Farm Payrolls increased 134,000 in September, missing the 185,000 consensus forecast, while the Unemployment Rate fell to 3.7%, the lowest level since 1969. Average hourly earnings rose 2.8%



- ADP Private Payrolls rose 230,000 in September
- Weekly Jobless Claims printed 207,000
- Factory Orders jumped 2.3% in August, their biggest gain in 11 months, though ex-Transportation orders edged up just 0.1%
- ISM's Non-Manufacturing index printed 61.6 in September, well above the 58.0 consensus forecast and a post-recession high

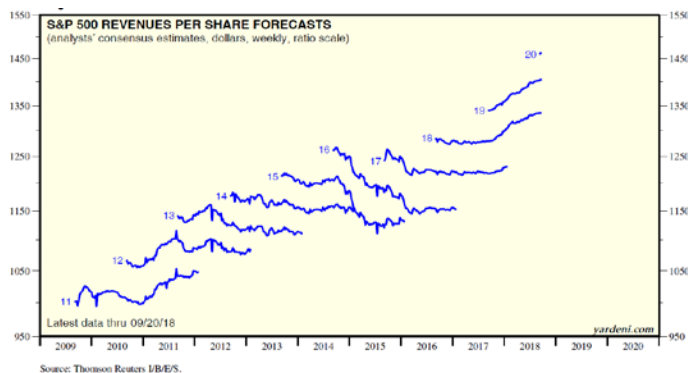


- But the ISM Manufacturing Index fell to 59.8 in August, down from 61.3 in August



### This Week:

- Over the weekend, the Senate voted 50-48 to confirm Brett Kavanaugh to the Supreme Court; he took the oath of office Saturday
- Overseas stocks are sinking
  - After taking a week off, China stocks lost nearly -4%. China's central bank cut reserve requirements 100 basis points effective next week
  - Italian banks are limit down this morning, as Italy's 2019 budget is due next week
  - Emerging market stocks, measured by the MSCI Emerging Market index, are trading at their lowest level in almost a year and a half
- U.S. stocks are indicated to open slightly lower
- Revenue estimates continue to get revised higher



- Ensco and Rowen announced they are merging
- Earnings season kicks off this week, headlined by reports from several of the large financial institutions
  - Wednesday: Fastenal
  - Thursday: **Walgreens** and Delta
  - Friday: Citigroup, JP Morgan, PNC Financial
- Economic data
  - Wednesday: September Producer Price Index (consensus: +0.2%)
  - Thursday: September Consumer Price Index (cons: +0.2% for both headline and core), federal Budget Statement, Weekly Jobless Claims
  - Friday: University of Michigan Consumer Sentiment (cons: 100.5)

As always, thanks very much for your interest and support.

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