



Index	Close	Return	
		Week	YTD
Dow Jones Industrial Average	25,989	2.8%	5.1%
S&P 500 Index	2781	2.1%	4.0%
NASDAQ	7407	0.7%	7.3%
Russell 2000 Index	1548	0.1%	0.9%
MSCI EAFE Index	1857	1.1%	-9.5%
10-yr Treasury Yield	0.0318	-0.03%	0.78%
Oil (\$/bbl)	\$59.83	-5.2%	-1.0%
Bonds*	\$104.14	0.1%	-2.5%

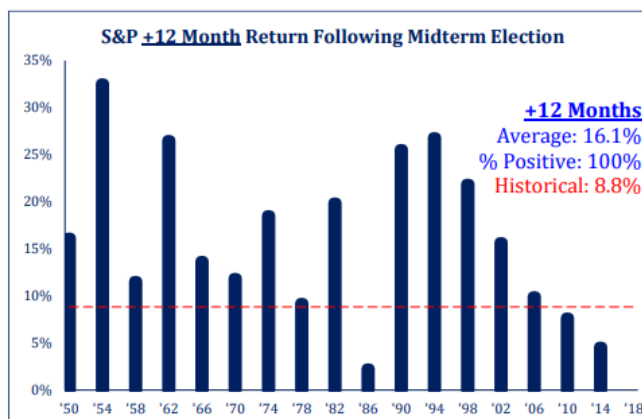
Source: Bloomberg, 11/09/18.

*Bonds represented by the iShares U.S. Aggregate Bond ETF.

Last Week:

U.S. Equity Markets

- U.S. large cap equities (S&P 500 Index) generated strong returns (+2.1%) during the week as the midterm elections were largely in-line with expectations with the Democrats taking control of the house in 2019, while Republicans will expand their majority in the Senate
 - Healthcare (+4%), defensives such as REITs (+3.7%), utilities (+3.1%) and consumer staples (+2.9%), and financials (+2.6%) outperformed
 - Information technology (+1.4%) underperformed along with higher-valuation growth stocks
 - Energy (+0.9%) underperformed as the price of oil continued to decline, but energy remained positive for the week
 - Communication services (-0.2%) was the only sector to finish lower on the week, partially due to late declines in Netflix and video game stocks
- Since 1946, history suggests that the following 12 months after midterm elections is an attractive environment for US equities as the S&P 500 Index has averaged a 16.1% gain, and has been positive 100% of the time



Source: Strategas

The historical bias favors higher stock prices following midterm elections. But it is also worth noting that each one of these years also saw a correction averaging -11% (max was -33% in 1987, and the min was -4% in 1963).

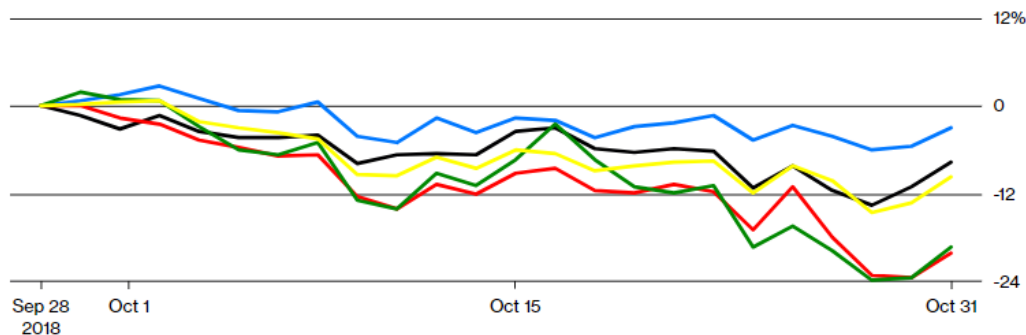


- The Dow Industrials outperformed with a 2.8% gain for the week, with 26 of 30 constituents advancing
 - IBM, **UnitedHealth**, McDonald's, and Travelers led the way
 - Worst were Goldman Sachs, Apple, Exxon, and Nike
- Dow Transports got caught in some congestion, rising 1.5%
- Dow Utilities added 1.9%
- Small-cap equities generated modest gains as the Russell 2000 Index rose 0.1%
- The technology-heavy Nasdaq Composite Index underperformed the broad US large-cap indexes, but rose 0.7%
- Higher-valuation growth stocks were not helped by the so-called "FANG," as Netflix (-4.7%) and Facebook (-2.5%) underperformed, continuing the FANG underperformance trend since the end of September

An October Swoon for the FAANGs

Change in stock prices since Sept. 28, 2018

Facebook Apple Amazon.com Netflix Google



Data: Compiled by Bloomberg



International Markets and News

- European equities delivered mild gains with the STOXX Europe 600 up 0.5%, despite ongoing political uncertainty between Italy and the European Union (EU) as well as economic growth concerns
 - European equities experienced negative sentiment from the EU warning Italy that it's poised to breach the EU's 3% budget deficit limit in 2020 if the Italian government proceeds with current budget plans
 - Eurozone composite final purchasing manager's indexes (PMIs) fell in October to 53.1, their lowest level since September 2016
 - European Central Bank (ECB) President Draghi stated the European economy was growing sufficiently to meet its inflation outlook, and he maintained that Quantitative Easing (QE) would end this year, but the ECB could change its language if the outlook worsened
 - According to EPFR Global, European equity funds experienced the 34th week of outflows out of the past 35 weeks
- Chinese markets were under pressure with concerns about slowing economic growth and trade tariffs as the Shanghai Composite fell 2.9%
 - October exports climbed to 15.6% in dollar terms from a year ago, ahead of economists' 11% forecast, but didn't provide much lift to Chinese stocks as many economists believe businesses may have rushed to place export orders before tariffs take effect
 - Imports from the U.S. declined for the second-straight month
 - The Chinese yuan has lost 9% of its value against the U.S. dollar in the six months ended in October, down nearly 7% in 2018, making Chinese goods cheaper for overseas buyers, potentially reducing the impact of punitive U.S. levies
- Japanese equities were flat (Nikkei 225 Index +0.1%) as the Reuters monthly business sentiment index declined in November to 26 from 28 in October
 - The consensus of economists recently polled by Reuters is that Japan's economy is likely to contract in the September quarter, reversing course again after generating strong growth in the June quarter, which followed a contraction in the first quarter of 2018

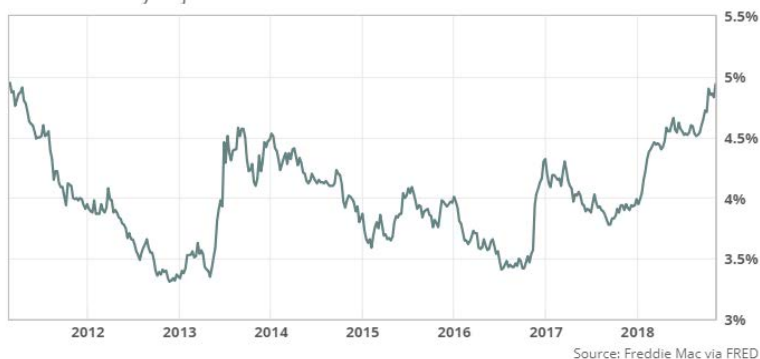


U.S. Economic and Political News

- As expected, the Fed left rates unchanged and made only minor changes to its policy statement.
 - It continued to describe the economic activity as “strong,” but did acknowledge some moderation in business investment from a “rapid” pace earlier this year
 - The Fed reiterated that it expects “further gradual increases” in the funds rate, thus implying that the Fed is on track for its fourth tightening of 2018 in the December meeting
- US economic data reports were generally supportive of healthy growth
 - The U.S. unemployment rate has fallen to 3.7%, the lowest since 1969, and 1.2% away from the best level in the post-war era (2.5% in 1953)
 - Weekly Jobless Claims matched the 214,000 consensus forecast, plumbing lows not seen since July 1973
 - The ISM Non-Manufacturing PMI printed 60.3 in October down from 61.6 in September
 - The University of Michigan’s Consumer Sentiment index printed 98.3 in its preliminary November reading, a shade better than the 98.0 consensus forecast
 - The Producer Price Index shot up 0.6% sequentially in October, triple the 0.2% consensus forecast, while the core PPI (excludes food and energy components) rose 0.5%, also well ahead of the 0.2% expectation. That marks the fastest pace of wholesale inflation in six years. The year-over-year rate of producer inflation has remained near 3% all year
- At President Trump’s request, Attorney General Jeff Sessions announced his resignation. His chief of staff, Matthew Whitaker, will serve as acting Attorney General
- Various news reports suggest President Trump may seek to replace Mel Watt as the head of the FHFA, with potential for higher Fannie Mae/Freddie Mac fees and lower conforming loan limits. Mortgage rates already have lifted to their highest level since 2011

30-Year fixed rate mortgage average in the United States

Not seasonally adjusted



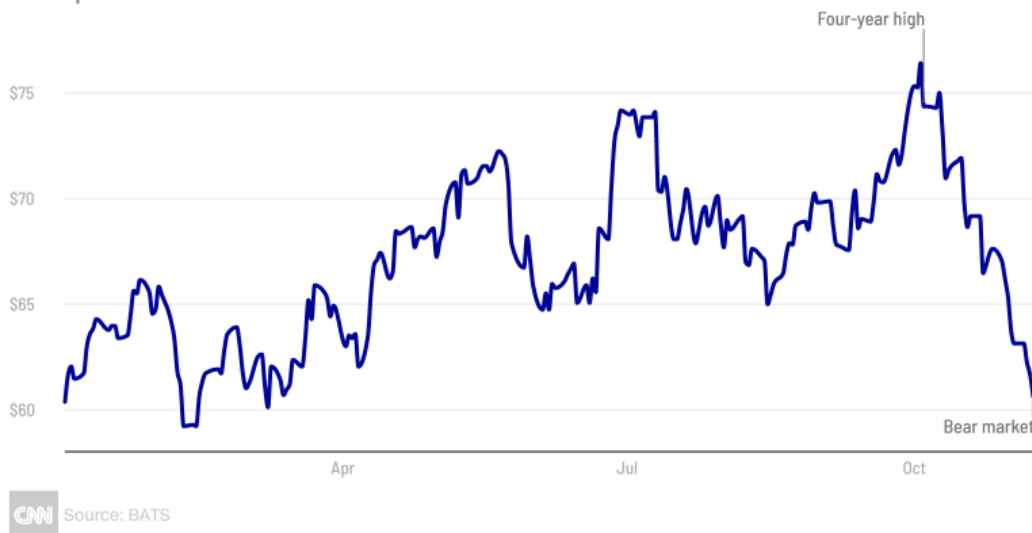


Commodities

- Gold dropped \$24.50/ounce, ending the week at \$1,206.40
- WTI crude was down nearly 5%, falling for a record tenth consecutive session Friday, after entering into bear market territory (-20%) on Thursday. For the week, West Texas crude declined \$2.95/barrel, finishing at \$60.19
 - The White House decision to grant eight countries temporary waivers from Iran sanctions may have impacted oil prices
 - OPEC and US production continued to increase, and crude stockpiles have been building

Boom to bust

US oil prices tumble





This Week:

- Overseas markets were mixed in overnight trading, with China's Shenzhen +2.5% taking the gold medal
 - Perhaps that's a function of the country's central bank announcing that it will allow "market supply and demand to play a bigger role in deciding the exchange rate"
- While banks and the post office are closed in observance of Veteran's Day, U.S. stock markets are open today; pre-market trading shows major indices little changed from Friday's close
 - We extend our sincere gratitude to our nation's military heroes. Thank you for your service
- Several mergers and acquisitions got announced overnight, including:
 - SAP buying Qualtrics for \$8 billion, which represents an impressive multiple of 20x Qualtrics' revenue
 - Veritas Capital and Elliot Management are teaming up to buy Athena Health for \$5.5 billion in cash
 - Vista Equity Partners is acquiring Apptio for \$1.94 billion in cash
 - Spirits maker Diageo is selling 19 smaller brands to Sazerac for \$550 million
 - NASCAR has offered to buy International Speedway for \$42/share
- Earnings season is winding down. Only 13 companies in the S&P 500 Index are scheduled to report earnings this week. Retailers will feature prominently, with Advance Auto Parts, Children's Place, and Home Depot all set to report Tuesday. Outside of retail, **Aramark** also reports Tuesday, while **Cisco Systems** will provide its results Wednesday
- Oil prices are a bit firmer, following news that OPEC appears determined to reduce output at its upcoming December meeting, with both Saudia Arabia and Russia indicating they will agree to cuts
- U.S. economic news includes inflation data on Wednesday, retail sales on Thursday, Empire Manufacturing on Thursday, and industrial production on Friday
- International economic data:
 - Tuesday: Euro Zone and German ZEW numbers
 - Wednesday: China and Japan Industrial Production and Japan Q3 preliminary GDP
 - Thursday: China House Price Index
 - Friday: Euro-zone Core Inflation Rate

As always, thank you very much for your interest in our thoughts and support of our services

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