October 2017

Market Index	October Change	Year-to-Date
Standard & Poor's 500	2.3%	16.9%
Dow Jones Industrial Average	4.4%	20.5%
NASDAQ	3.6%	26.1%
Russell 2000 (small company)	0.9%	11.9%
MSCI EAFE (international)	1.5%	22.3%
Barclays Aggregate Bond Index	0.1%	3.2%

Monthly Update

Strong Revenues, Profits, and Stock returns

Just over 30 years ago on October 19th, 1987, the S&P 500 tumbled 20.5% in a single day. In spite of that the index managed to post a gain for the full year, finishing with a total return of over 5%. No such crash took place this year, but 2017 is shaping up to be another year of solid gains in stocks. With yet another very strong month, the technology sector is leading the way, gaining 7.8% in October and 37.2% for the year so far. For the U.S. and international stock markets, it was another month of broad gains supported by good news on both the economic and corporate earnings fronts. International stocks continue to outperform for the year with gains above 20%. The major bond indices were mostly stable, but short-term interest rates have been rising while longer-term rates remain flat-to-down.

Economic Growth Continues

Much of the focus is on Congress and tax reform progress, but in the meantime the U.S. and global economy continues to expand. This synchronized global growth is beneficial to the overall health of the world economy, but it has been lacking for much of the past decade. The U.S. economy has been growing for 99 months without a recession, which is the third-longest expansion since 1900, according to the National Bureau of Economic Research. Consumers and businesses are optimistic as a result of rising wages, healthy balance sheets, low energy prices, and manufacturing sector improvement. Even some of the European economies that have struggled mightily to stabilize or even grow just slightly have seen some signs of life.

Third quarter GDP growth in the U.S. came in at 3% following second quarter's 3.1%, the best back-to-back growth rate since 2014. Consumer spending and corporate capital investment were more than enough to offset a contraction in housing activity. Expectations for future U.S. growth are still modest at 2-3%. This is a slower growth rate than many prior expansions, but the slower pace has likely allowed the current expansion to last longer. Higher growth rates often don't last as long as the economy overheats more quickly.

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Monthly Update (continued)

Tax Reform Inching its Way through Congress

While positive economic and corporate earnings news have supported the market, investors are keeping close watch on the progress of tax reform. Still in the early stages, the details of the various possibilities are in the headlines on a daily basis. After Congress raised the debt ceiling in September and funded the government, Republican leaders met to discuss the principles of tax reform proposals. In October, both the House and Senate passed budget resolutions, and then passed a joint budget resolution, leading to the next phase of working on actual legislation. The House released a tax plan in early November, which included among other things a lowered corporate tax rate, reduced individual income tax rates, elimination or adjustments of various deductions and credits, and a provision to impose a corporate tax on accumulated earnings held offshore. Of the many potential sticking points, the most contentious are likely to be the effect on deficits, deductibility of state and local income taxes, limits on deductions (particularly mortgage interest), and the top marginal tax rates for individuals. November promises to be full of back and forth negotiating about all of the proposals, and it's too early to tell what a final law would entail.

Trump Names New Fed Chairman

After months of speculation, we finally know who the next Fed Chair will be. President Trump nominated Federal Reserve governor Jerome Powell, and if he is confirmed by the Senate, he will replace Janet Yellen whose term expires in February. The choice of Powell is considered to be a safer option than some had predicted, as he is likely to largely maintain the status quo at the Fed. The Fed is in the midst of a gradual path of tightening policy, both by raising interest rates and reducing the size of its balance sheet. One difference between Powell and Yellen relates to regulation. Powell is viewed as more open than Yellen to loosening some of the post-financial-crisis regulations, which is something President Trump has supported in multiple industries during his first year in office.

Trump will continue to have the opportunity to remake the Fed, as several more positions remain unfilled. The vice chair position remains open, as well as two positions on the Fed Board of Governors (out of a total of seven). With Trump's appointment of Powell, speculation that Trump would dramatically overhaul the Fed has faded.

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