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Innovative Wealth Solutions

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## 2017: A Third Quarter Review

*A quick summary of economies & markets for you.*

Dear Friends,

Encouraging economic data and a series of unsettling news headlines vied for Wall Street's attention in the third quarter, and ultimately, investors were not shaken. The S&P 500 rose 3.96% over three months, getting a lift from upbeat manufacturing and consumer confidence readings as well as earnings news. Away from our shores, the economies of China and the euro area showed improvement, and foreign stock benchmarks rallied along with ours. A slumping dollar offered no big spark for the commodities markets. The residential real estate market looked to be cooling off. The quarter was filled with major news stories, yet the bulls sauntered through the disruptions.[1]

**Domestic economic health.** Consumer confidence barometers were among the most impressive economic indicators last quarter. By August, the Conference Board's index topped 120, far above its origin score of 100; it was at 119.8 in September. The University of Michigan's consumer sentiment gauge ended Q3 exactly where it ended Q2 – at a solid mark of 95.1, rebounding from a July dip to 93.4.[2,3]

The economy's two key purchasing manager indices were also elevated well above the 50 level, which also cheered Wall Street. In September, the Institute for Supply Management's factory PMI jumped to 60.8 – rising above 60 for the first time in 13 years, after readings of 58.8 in August and 56.3 for July. ISM's service sector PMI came in at 53.9 for July and 55.3 for August (at this writing, the September reading was pending).[4,5]

Hiring eased during the quarter. Employers added 156,000 net new jobs in August after a July gain of 189,000. The main jobless rate ticked up from 4.3% in July to 4.4% in August, while the U-6 rate, tracking unemployment and underemployment, held at 8.6%.[6,7]

Inflation showed definite signs of picking up, or at least, nearing the Federal Reserve's 2.0% target. The Consumer Price Index showed a 12-month advance of 1.7% in July, then 1.9% in August. In both those months, core prices rose 1.7% year-over-year. The Producer Price Index displayed but a 1.9% yearly advance in July, which rose to 2.4% a month later.[2]

With personal wages improving annually at a decent 2.5%, did personal spending increase? Not as much as economists hoped. The gain was 0.3% in July, but merely 0.1% in August.[7,8]

Other data points from Q3 included a minor retreat for manufacturing production (down 0.1% in July and 0.3% in August), a rise and fall for industrial production (up 0.4% for July, down 0.9% just a month later), and a fall and rise in durable goods orders (which sank 6.8% in July but rose 1.7% for August). Retail sales were 0.3% higher in July and declined by 0.2% for August.[2,8]

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Few investors thought the Federal Reserve would tinker with interest rates in the third quarter, and it did not. It did announce a strategy to cut its $4.2 trillion balance sheet at its September policy meeting. Beginning in Q4, the Fed will allow $10 billion in bonds per month to run off, and the pace will accelerate to $20 billion per month in Q1, $30 billion per month in Q2, etc., to a monthly goal of $50 billion.[9]

Cybercrimes were also conspicuous in the quarter. Credit reporting titan Equifax had its databases hacked, leaving the personal information of more than 140 million Americans at risk. Whole Foods and Sonic also suffered major identity theft breaches.[10]

**Global economic health.** News about the European economy was increasingly positive, even as Spain's Catalonia region threatened to secede and Brexit negotiations continued. By August, euro area joblessness had fallen to 9.1%, an 8-year low; unemployment was down to a record-low 5.6% in Germany. Euro area consumer confidence rose to a high unseen since prior to the credit crisis, as the summer ended. In September, the European Central Bank forecast growth of 2.2% for the region, which could lead the ECB to wind down its longstanding bond-buying effort.[11]

Late in the quarter, China's official statistics bureau projected 6.9% GDP for the year; Nomura, JPMorgan Chase, and Citibank upgraded their forecasts for China's 2017 growth to 6.8%. When it came to India, the outlook was far less rosy; as Q3 ended, the Asian Development Bank cut its GDP forecast for India's current fiscal year by 0.4% to 7.0%, and Fitch Ratings slashed theirs by 0.5% to 6.9%. Particularly alarming was news that the Indian manufacturing sector had advanced only 1.2% year-over-year through July.[12,13]

**World markets.** As September's final trading day ended, 13-week (quarterly) gains were widespread among foreign benchmarks. The MSCI Emerging Markets index surged 7.02% in Q3. Not far behind was the Hang Seng; Hong Kong's index soared 6.95%. The Shanghai Composite rose 4.90%. MSCI's World Index posted an advance of 4.39%.[14,15]

Quarterly improvements also occurred for the CAC 40 in France, which added 4.08%, and the DAX in Germany, up 4.09%. Canada's TSX Composite rose 2.98%; Japan's Nikkei 225, 1.61%; India's Sensex, 1.45%. The United Kingdom's FTSE 100 gained 0.82%. Australia's All Ordinaries was an exception, putting up a Q3 loss of 1.11%.[15]

**Commodities markets.** The U.S. Dollar Index weakened by another 2.66% in the third quarter, yet the broad raw materials market did not rally strongly in response; although, select futures did. Heating oil made the biggest advance among notable commodities, rising 21.9%. Elsewhere on the NYMEX, oil added 12.2%, closing at $51.64 on September 29.[16,17]

Gold fell after hitting a YTD peak in the quarter, but ended Q3 at $1,284.80, its lowest close in more than a month. The yellow metal rose 3.4% in Q3. Silver prices increased only 0.3% to $16.68 across the quarter. Platinum went up 1.2%; palladium, 12.0%. Amid the base metals, zinc gained 15.0%; aluminum, 11.4%; copper, 9.2%. Cocoa stood out from most other crops with a 7.4% advance. Wheat lost 12.3%; cotton, 8.3%; corn, 4.1%. Natural gas ended up losing just 0.86% in three months.[16,18]

**Real estate.** Prospective home buyers looked around and saw fewer homes on the market in the third quarter, along with fewer homes they could actually afford. According to the National Association of Realtors, the median existing home sale price in August was $253,000. The latest available edition of the 20-city S&P/Case-Shiller home price index (July) showed prices advancing 5.9% annually.[8,19]

By August, the NAR reported that existing home sales had declined in four of the last five months. They were down 1.3% in July and another 1.7% a month later, as the sales pace reached a 12-month low. The Census Bureau's picture of new home buying was no better: a 5.5% stumble for new residential sales in July, a 3.4% dip in August.[2,19]

Pending home sales also trended downward, falling 2.6% in August after a mild descent of 0.8% for July. Groundbreaking also lessened during the quarter. The Census Bureau identified a 2.2% reduction in housing starts for July, lessening to 0.8% in August. Building permits did rise 5.7% in the eighth month of the year after falling 4.1% during the seventh.[2,8]

Between June 29 and September 28, fixed-rate home loans grew slightly more expensive, according to Freddie Mac's Primary Mortgage Market Survey. On September 28, the survey showed the following interest rates: 30-year fixed, 3.83%; 15-year fixed, 3.13%; 5/1-year adjustable, 3.20%. The numbers from the June 29 snapshot: 30-year fixed, 3.88%; 15-year fixed, 3.17%; 5/1-year adjustable, 3.17%.[20]

**Looking back … looking forward.** Tech shares and small caps outran the blue chips across summer, but not by much. During a fine quarter for U.S. stocks, the Russell 2000 nearly matched the gain on the Nasdaq, rising 5.33% and taking its YTD advance to 9.85%. The CBOE VIX volatility index fell 14.94% in Q3, putting its YTD loss at 32.26%. On September 29 at the closing bell, the key benchmarks settled as follows: Dow Jones Industrial Average, 22,405.09; S&P 500, 2,519.36; Nasdaq Composite, 6,495.96; Russell 2000, 1,490.86; CBOE VIX, 9.51.[1,21]

| % CHANGE | Y-T-D | Q3 CHG | 1-YR CHG | 10-YR AVG |
|---|---|---|---|---|
| DJIA | +13.37 | +4.94 | +23.49 | +6.12 |
| NASDAQ | +20.67 | +5.79 | +23.28 | +14.05 |
| S&P 500 | +12.53 | +3.96 | +17.12 | +6.50 |
| REAL YIELD | 9/29 RATE | 1 YR AGO | 5 YRS AGO | 10 YRS AGO |
| 10 YR TIPS | 0.49% | 0.02% | -0.77% | 2.27% |

Sources: wsj.com, bigcharts.com, treasury.gov – 9/29/17[1,21,22,23]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

Investors think of the fourth quarter as a "sweet spot" for the market, and they can cite history to affirm their belief. Since 1950, the S&P 500 has advanced in 79.1% of fourth quarters. Its average Q4 performance from 1950-2016: +3.9%. Both the Dow and S&P are entering the quarter on 6-month winning streaks, and bulls seem to be okay with the prospect of a Q4 rate hike and the Federal Reserve thinning its bond holdings. Then again, there is no sure thing on Wall Street. As an example, September has long been characterized as a bad month for equities, but that was not the case this year. Confidence is certainly abundant and anticipation is high as a new earnings season begins, and if history repeats itself, 2017 will go into the books as a strong year for U.S. equities.[24]

At the top of 2018, I'll recap what will hopefully be a very positive Q4. Between then and now, feel free to contact us at (978) 649-2212 to explore year-end charitable gifting, tax reduction, or retirement planning options. Until then, we wish you and your family a healthy and prosperous 2017 holiday season.

All the Best,

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MML Investors Services Inc
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**Featured in Boston Magazine as Five Star Wealth Manager in 2011, 2012, 2013, 2014 and 2015.**

**We are never too busy to help those you care about.**

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