

Commentary October 1st, 2017

The Dow Jones Industrial Average, S&P 500 Index and NASDAQ 100 Composite all enjoyed strong 3rd quarters, and year-to-date gains for the three indices are 13.37%, 12.53% and 20.67%, respectively. Small cap stocks scored an impressive gain as well, with the Russell 2000 reaching a record high amid a terrific overall showing for equities. [Wall St. Journal October 2nd 2018] Traditional propitious factors for stock investors, including low inflation, stable economic growth, easy money courtesy of central banks and rising profit margins, have helped to prop up the market multiple. Barring an extraordinary geo-political event, this placid environment looks likely to remain in place for the near term.

In September the Federal Reserve Bank announced, in a mark of confidence that stagnant inflation is starting to bounce back, that it will start paring back its multi-trillion dollar balance sheet. Currently, when a bond that the Fed owns matures, it reinvests the proceeds in new treasury and/or mortgage securities. Going forward, the central bank plans to put a \$10 billion cap on reinvestment per month, and the cap will increase until it becomes \$50 billion per month sometime in 2018. Additionally, the Federal said it was considering another interest rate hike in December, as well as more increases in 2018. [Financial Times September 21st, 2018] The European Central bank has also indicated it will wind down its asset purchase scheme as it responds to firmer growth in the Euro area. These moves mark a pivotal moment as policymakers around the world retreat from the support operations put in place during the worst financial meltdown of modern times. Falling unemployment and steady growth reduce the need for emergency levels of monetary assistance.

What does this mean for investors? Since the 1st quarter of 2016 global stock markets have had an amazing run. The S&P 500 Index has rallied more than 30% during this interim, with low volatility and not a single 10% correction. [Barron's October 2nd, 2018] This is historically very unusual, and statistically unlikely to be sustainable. Gains have been driven by earnings growth and accommodative liquid conditions, i.e. the world's central banks' bond purchases. Hopes for tax cut legislation represent a potential upside for corporate earnings, but the liquidity element could become less favorable as the Fed pushes further into an interest rate-tightening cycle. If inflation accelerates and the Fed is forced to raise rates faster, the markets may have a difficult time. As long as inflation runs below target estimates, however, the Fed has the luxury of going slow. A gradual path to normal rates will be easier to digest for the markets and its investors.

We invite and encourage clients to contact us with questions and concerns and are available to meet at your convenience.

Registered Representative offering Securities through American Portfolios Financial Services, Inc.

Member: [FINRA](#) & [SIPC](#)

Investment Advisory products/services are offered through American Portfolios Advisors Inc., a SEC Registered Investment Advisor.
