ABUNDANCE
WEALTH COUNSELORS

Market Intelligence

October 2018

Index	Sept Return	1 Year
MSCI ACWI	0.44%	9.77%
S&P 500	0.57%	17.91%
MSCI EAFE	0.87%	2.74%
Barclay's Aggregate Bond	-0.42%	-0.99%
Bloomberg Commodity	1.92%	2.59%

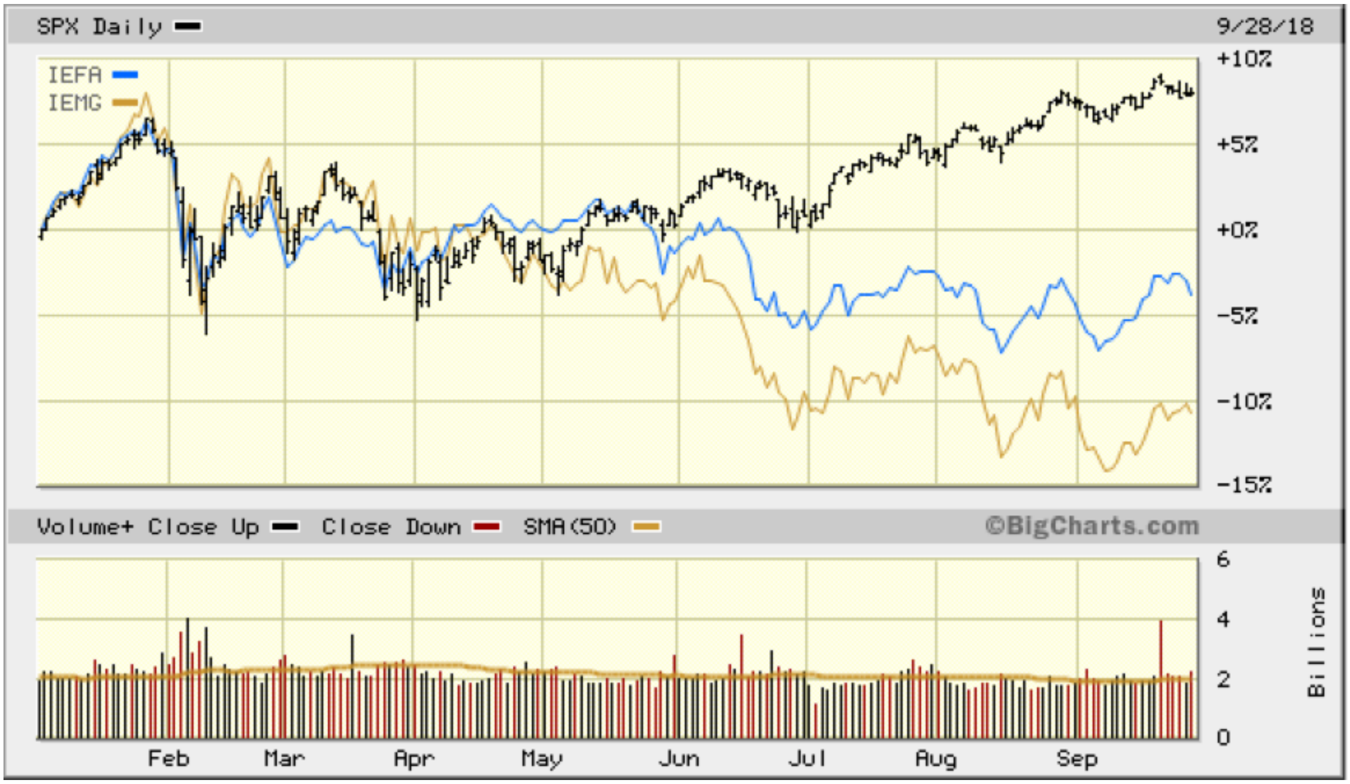
The S&P 500 ended the third quarter with a gain of +7.2%, its best quarterly performance since 2013. The NASDAQ and Dow Jones Industrial Average also had a positive quarter as well, rising +7.2% and +9%, respectively. International equities continued to struggle this quarter with the MSCI EAFE posing a modest loss of -1.43% in the Q3 2018, and Emerging Markets falling -7.94%.

Economic reports were mostly positive throughout September. Inflation was lower than expected, the economy continued to grow, and unemployment remained at record lows. On September 26 the Federal Open Market Committee (FOMC) increased interest rates by +0.25% and we expect another rate hike in December. Although the pace of the rate hikes remains uncertain, the Fed indicated it will continue to raise rates through 2019.

Trade Tensions and Money Flows

The first nine months of 2018 was anything but consistent and smooth for international markets. So far this year the US has been on the brink of a trade war with China, has threatened to pull out of NAFTA and the Iran Nuclear deal was dismantled; Latin America has been dealing with hyperinflation, mass migration, and geopolitical issues; and China is in the middle of a bear market and their economy has started to slow. On top of all that, the US Dollar has strengthened, making it more difficult on foreign economies.

In 2017, most international equity markets outperformed the US driven by low interest rates and a bounce back in global growth. This year, US and international equity markets were tracking each other until May when the trade dialogue between the US and China started to heat up. Fearing a trade war, investors began to move money away from foreign markets into the US, in essence deciding the US is the best positioned to win the war. *(The below the chart illustrates year to date returns of ETFs tracking the following indexes. US: S&P 500 (black), Europe, Australia, Asia, and Far East: IEFA (blue), and Emerging Markets: IEMG (Gold).*



Often there is a disconnect between the economy and capital markets. Although one would like to believe the capital markets are data driven, there are periods of time when emotions drive money flows. By way of example, consider the Brexit poll in June of 2016. Investors feared the worst and global markets sold off. However, the exact opposite happened, and since then the UK FTSE 100 Index has risen from a June 2016 low of 6504 to 7545 by the end of September.

Currently, we believe the same thing could be happening with how the markets are reacting to the trade dialogue with China. Although there are some countries experiencing economic stress such as Turkey and Argentina, we continue to see positive economic indicators from much of the globe. A prolonged trade war with China would be inflationary and negative for global growth, however any progress between both sides would probably be greeted by a strong rebound in the foreign equity markets. In fact, during the month of September we began to see a shift in money flows back to the international markets with the MSCI EAFE up +0.87% while the US S&P Small Cap 600 Index has declined -2.41%.