

Market Currents

- **Spooky October.** October was certainly more trick than treat for investors around the world. It was a routine beginning to the month, with the market setting fresh all-time highs. But over a few short weeks, investors veered from worrying about the economy overheating to fearing a potential recession just over the horizon. US stock indexes dipped briefly into correction territory, with the Nasdaq taking the brunt of the damage. Main culprits for the weak action were concerns over higher interest rates and the ongoing trade tensions with China. Overseas markets were not spared from the selloff, and are negative on the year.
- **Rising Rates.** Weaning the US economy off cheap money is proving a challenge. The Federal Reserve raised rates for the third time this year, and signaled another rate hike is in the cards for December. By raising rates now, the Fed is desiring to stockpile future rate cuts for a time when the economy weakens, and needs lower rates to stimulate growth. Of course, in a circular manner, hiking rates now increases the chances that the Fed will hasten the onset of a slowing economy.
- **To Trade or not to Trade?** Beijing and Washington continue to be locked in a spiraling trade war that has seen them level increasingly severe rounds of tariffs on each other's imports. While President Trump continues to make threats, the White House's rhetoric has softened a touch at the margin, and it is probable that both sides may be searching for a face-saving compromise at the upcoming G20 Leader's Summit at the end of the month.
- **Midterm Elections.** The midterm elections are looming, and political posturing is in overdrive. We need to reach back 50 years, to the turbulent 1960s, to discover an electorate this polarized. Approval ratings and polling imply that a divided Congress, with a Democratic House and Republican Senate, will be the most likely election outcome. But surprises are likely in the offing. (And let's not forget the predictions two years ago, ours included, for President Hillary Clinton.)
- **Earnings are Good, not Great.** Companies have printed several quarters of strong and high-quality earnings, but the latest quarterly results reveal some weakness creeping into company narratives. A broad swath of companies is facing pressure from the strong US dollar and higher labor and material costs, while pockets of the global economy are experiencing softness. The added variable of tariffs and their impact adds to some uncertainty around corporate outlooks.
- **(Still) Cautiously Optimistic.** We believe the home stretch of 2018 remains supportive for risk assets. Companies continue to garner an earnings benefit from the tax overhaul passed late last year. Consumer confidence is high and the labor market is strong. The recent bout of volatility appears to be driven more by technical reasons than fundamentals. Encouragingly, we are not seeing the weakness spread to the "smarter" bond markets. However, we acknowledge that sentiments can change rapidly. Risks to our outlook would arise from unexpected inflationary pulses, materially worse relations with China, a midterm "blue sweep," or a rapid pullback in consumer activity.

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