



## THE ECONOMIC MONTH IN REVIEW AND OUTLOOK – OCTOBER

### **US Markets and Economy:**

US stocks continued to bull ahead in October. A new all-time high was set by the Dow Jones Average, which cracked 23,000 and then reached 23,500 on the 1<sup>st</sup> of November. The broader-based S+P 500 Index cracked through 2,550 to finish the month at 2,575. The NASDAQ Index broke through both 6,600 and 6,700 during the month, and finished at 6,727. For the year to date, all three of these indexes have already recorded double-digit gains, from 15% for the S+P 500 Index to 25% for the NASDAQ.

With stocks headed into the seasonally strong part of the year, more gains could be on tap, making 2017 an outstanding year for stock investors, coming on top of almost a decade of gains since early 2009. What has powered the recent rise? Economic growth has certainly been part of the story, as rising real GDP has pushed corporate profits back into growth mode. With the pace of real GDP growth back to a healthy 3%, the outlook for 2018 is quite good on the corporate front. Adding to the optimism is the potential for a large corporate tax cut, which could further drive after-tax profits higher. With the Fed succession settled, uncertainty about monetary policy has been reduced. Jerome Powell will likely steer a cautious course, as Janet Yellen did. Powell voted with Yellen consistently, and as long as the other FOMC vacancies are filled with moderates on monetary policy, the Fed will continue to increase short-term rates very gradually. The Fed will also stick to a very gradual reduction in the size of its balance sheet, which so far has had almost no impact on long-term interest rates. A continuation of easy money with low interest rates is of course just what the stock market desires.

While the stock market must still contend with political volatility at home, nothing has derailed the steady march upward of US stocks. In addition, political volatility abroad has also had almost no impact on US stocks. Thus, the winning formula for the bull market, low rates and corporate profit growth, seems well entrenched.

### **World Markets and Economy:**

Politics have also been trumped by economics in the rest of the world. European blue-chip stocks, as measured by the EUROSTOXX 50 Index, scored a nice gain in October, and are now

very close to their 2015 multi-year high, up nearly 12% for the year. Within Europe, Spanish stocks managed a gain for the month, even as Catalonia voted for independence, while the Spanish government moved to quash the revolt. (However, the monthly gain was erased in the first three days of November.) The French and German markets rallied to new multiyear highs, as economic growth picked up in the Eurozone, while the ECB continued its program of easy money and very low interest rates. Even British stocks gained in the face of even greater uncertainty about Brexit, an increase in the Bank of England's interest rate, and the rising popularity of Jeremy Corbin.

The story was the same in Tokyo, as the Nikkei rose steadily throughout the month to reach a new multidecade high. Again, the combination of renewed economic growth and continued low interest rates powered the rise. Adding to investor optimism was the result of the October 22<sup>nd</sup> election, which further cemented Prime Minister Abe's hold on power. The Nikkei is now up 17% for the year. Optimism was rampant everywhere in Asia; even South Korea, under constant threat from North Korea, posted a strong gain for the month, as measured by the KOSPI Index. Korean stocks are now up 25% for the year.

### **OUTLOOK:**

We are entering the strongest seasonal period for US stocks, with a full head of steam already. There is no sign the bull market is ending, so investors in the US and around the world may have even more to celebrate at Thanksgiving. Political uncertainties aside, the long bull market in stocks should continue.