THE ECONOMIC MONTH IN REVIEW AND OUTLOOK – SEPTEMBER

US Markets and Economy:

The long bull market in US stocks rolled on in September. And the Dow Jones Industrials made it official: the closely-watched Dow finally hit a new all-time high, eclipsing its old high set in January of this year. It was accompanied to new heights by the broad-based S+P 500, which pushed closer to the 3,000 level before a bit of weakness at the end of the month. The length and strength of this bull market is one for the record books: in March 2009, the Dow fell to 6443, and is now, nearly 10 years later, up by more than 20,000 points. The S+P 500 touched 676 in March 2009, and has now more than quadrupled, not counting dividends. The rewards to investors who took the long view in 2009 and "kept the faith" have been enormous. There are two lessons here: first, buy and hold for the long-term, since history shows that stocks are the best long-term investment you can make. Second, remember that great bull markets rise from the ashes of painful bear markets. The reason investors are so well-rewarded over the long term is that they must ride out this inevitable volatility of stocks.

The powerful rise in US stocks this year has been driven by sharply rising corporate earnings, as the economy picks up speed and corporate tax cuts do their magic to the bottom line. Analysts are expecting this year's third quarter (June-September) earnings will again show growth of 20% or more over last year, which is a heady tonic for stock market bulls. This growth can easily offset any drag from rising interest rates. Indeed, the Federal Reserve, on cue, raised short-term interest rates by ¼ percent in September, and US stocks barely noticed. The Fed has stated that it will gradually "tap the brakes" again in December and also next year, but interest rates are still historically low and thus do not pose much of a headwind for the bulls. The Fed also expects that inflation will stay low at its target of 2%, which means monetary policy is not likely to choke off the long recovery. Many recessions have started after the Fed raised rates sharply to curtail inflation, so steady and low inflation is good for stocks. The Fed is also willing to let the economy grow fast enough to keep reducing unemployment, which is already below 4%. More jobs mean more Americans can participate in the economy's growth.

If there is one factor that can cloud this sunny outlook, it is international trade. The Trump administration has been playing hardball with America's trading partners, and their retaliation can hurt our exporters, while domestic protection can drive up the cost of imports. The good news which came at the end of the month is that NAFTA, under a new name, will be saved. This gives hope that the budding trade war with China can also be deescalated before it does serious damage to the US economy.

The only other cloud on the horizon is US politics. The mid-term elections are approaching, and the odds that the Democrats will regain control of the House are rising. This increased political uncertainty, coupled with an even higher level of political acrimony, could restrain the markets as November approaches.

World Markets and Economy:

Politics did hurt European stocks in September. The blue-chip Euro Stoxx 50 dropped sharply early in the month and ended September about where it started. The blue-chip index has been in a slow downtrend for almost a year, and is nearly 10% below its all-time high. Perhaps the worst political mess is in Italy, which has a strange left-right populist coalition, a slow-growing economy, lots of debt, and a substantial budget deficit. The Italian stock market is down 6% for the year. Greece has done even worse, with Greek stocks down over 14% for the year. The Greek economy is still weak, unemployment is still high, and the level of government debt is dangerously high in spite of increases in taxation and cuts in government spending. Another bailout is probably inevitable, and this may bring down the current government, which has lost much of its popularity and must face elections next year. Although the British stock market held up relatively well for the month, the specter of a messy Brexit looms ever closer, and stock volatility could increase over the next few months.

Japanese stocks joined the American bull-market party and made new highs at the end of the month. Easy money is still supporting Japanese stocks, and Abe's political future looks more stable now, since he was reelected leader of his LDP party in September. The weak Shenzhen (China) index stabilized for the month, but fears of a bigger trade war, combined with Chinese efforts to slow the economy, have taken a toll. Chinese stocks are down over 14% for the year.

OUTLOOK: US stocks remain on an upward path, even as European equities struggle. The last few months of the year are historically the strongest in the US, so more upward movement, driven by rising earnings, could mean another good Christmas for US investors.