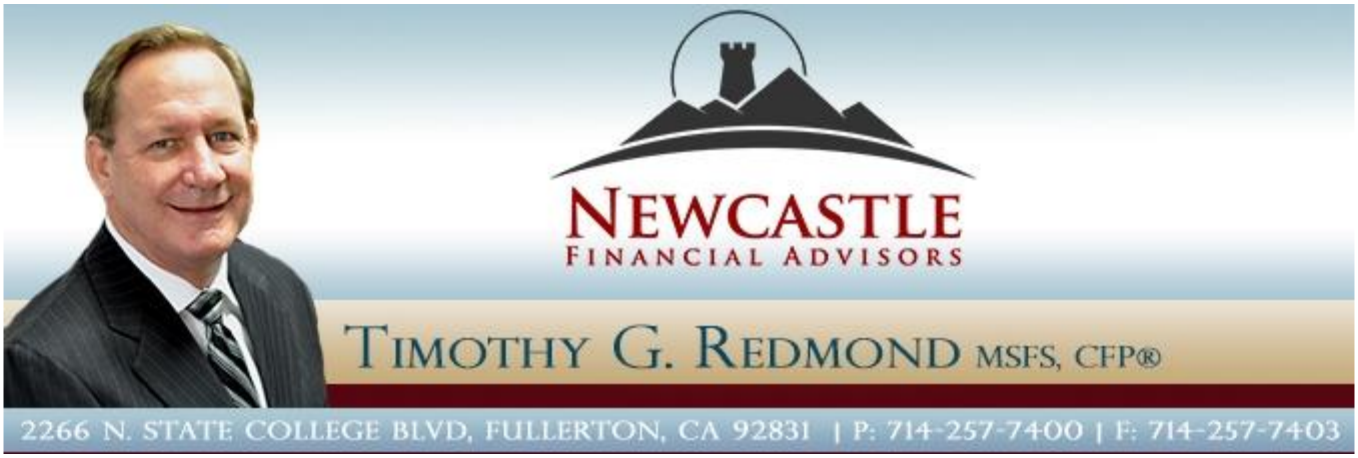

In this month's recap: another correction hits Wall Street, housing indicators raise questions, but consumer confidence, consumer spending, and GDP look healthy.

Monthly Economic Update

Presented by Tim Redmond, November 2018

THE MONTH IN BRIEF

October certainly lived up to its reputation for volatility. The S&P 500 suffered its second correction of the year as investors wondered if they were seeing early signs of the peak of the current business cycle, absorbing news of moderating corporate earnings, while also considering the potential impact of higher interest rates and tariffs. Real estate indicators, for the most part, left much to be desired; labor, manufacturing, and consumer spending and confidence indicators were in better shape. Overseas, major and minor reductions in economic growth were forecast for various nations. In the commodities sector, oil and gasoline posted major losses. [1]

DOMESTIC ECONOMIC HEALTH

Housing aside, the domestic economic data arriving in October ranged from middling to excellent. The Institute for Supply Management presented its latest manufacturing purchasing manager index; the September reading was 59.8, down from the previous mark of 61.3, but still superb. ISM's non-manufacturing PMI reached an all-time peak of 61.6, rising 3.1 points from its August level. [2]

In a notable miss, the Department of Labor's September employment report showed U.S. non-farm payrolls adding 134,000 net new hires. Economists surveyed by Bloomberg projected the gain at 185,000, and some wondered if Hurricane Florence might have affected the total. Headline unemployment fell 0.2%, however, to a remarkably low 3.7%. The jobless rate had not been that low since the end of the 1960s. The U-6 unemployment rate, which counts both the unemployed and underemployed, ticked south 0.1% to 7.4%. Another bright spot: the upward revision of the previous two months of hiring totals. The July jobs gain was boosted by 18,000 to 165,000; the August gain was upgraded from 201,000 to 270,000. [3,4]

The major reports in the following week covered retail sales and consumer prices, and they posed some question marks. Why had retail sales improved just 0.1% in August and September, in a presumably prospering economy? Turning to another closely watched indicator, the annualized rate of consumer inflation fell from 2.7% in August to 2.3% in September. (Core consumer inflation remained at a 2.2% yearly pace.) Seasonal fluctuations in fuel and energy costs may not be enough to explain the variance. Annualized wholesale inflation also declined in September, weakening 0.2% to 2.6%. Speaking of business, data on September industrial and manufacturing production surfaced days later, showing a monthly gain of 0.3% for the first of those two sectors and 0.2% for the second. [4]

The month's first important consumer confidence index, the gauge overseen by the University of Michigan, fell 1.1 points in its preliminary edition and another 0.4 points in its final October reading, ending the month at 98.6. On October 30, the Conference Board's consumer confidence index displayed another noteworthy reading: 137.9, which surpassed its (revised) 135.3 mark in September. [4]

As the month stretched on, the federal government provided its initial estimate of third quarter economic expansion, and it was solid: 3.5%. That followed a 4.2% pace of growth in Q2. The six months ending in September represented the best back-to-back quarters for the economy since 2014. Additionally, overall hard goods orders rose 0.8% in September (though they were down 0.6% minus defense industry orders). [4,5]

Personal income and personal spending data for September appeared as October wound down, and one indicator impressed more than the other. While personal spending grew 0.4%, wages were up only 0.2%. [4]

Finally, wages improved 2.9% year-over-year through September, as the Department of Labor's Employment Cost Index pointed out on Halloween. This was the largest annualized wage gain seen in a decade. [6]

GLOBAL ECONOMIC HEALTH

Last month, China's National Bureau of Statistics reported Q3 economic expansion of 1.6%, leaving the nation's projected 2018 GDP at 6.5%. The Chinese economy last grew that slowly in Q1 2009. China's official growth target for the year is 6.5%, but its GDP was running at a 6.7% annual pace when the second quarter ended, prior to the direct impact of tariffs. The International Monetary Fund believes the U.S. tariffs on the P.R.C. will also affect the region's other economies: in the first half of October, it cut its 2018 GDP estimate for Malaysia by 0.6%, and lowered its GDP projections for Indonesia, the Philippines, and India by 0.1%-0.2%. [7,8]

Economic deceleration was also a rising concern in Europe. The European Central Bank projects 2018 eurozone growth of 2.0%, down from 2.5% in 2017. (The bank still intends to conclude its bond-buying campaign in December.) Germany's Chamber of Industry and Commerce now estimates that nation's GDP at just 1.8% for 2018, quite a reduction from its previous 2.7% projection. Meanwhile, Italy's newest proposed budget, which flagrantly disregarded E.U. rules, was chided by E.U. officials who warned of fines for the country if it was not modified. As for the Brexit, much was still unresolved. The possibility of a "blind Brexit" – a Brexit in which the United Kingdom exits the E.U. without any formal future trading agreement established with E.U. nations – was still on the table. In late October, word came that eurozone growth in the third quarter was 0.2%, half that seen a quarter earlier. [9,10]

WORLD MARKETS

Brazilian investors were feeling exceptionally bullish last month. That nation's main stock index, the Bovespa, gained 10.19% for October. No other major index even came close to that kind of performance. In fact, several benchmarks corrected: Mexico's Bolsa lost 11.23%; Argentina's Merval, 11.87%; Hong Kong's Hang Seng, 10.11%; the Nikkei 225, 10.51%; South Korea's Kospi, 12.90%; Taiwan's TSE 50, 10.39%. [11]

Other marquee indices avoided month-long corrections, but still fell sharply like ours. MSCI's World index stumbled 7.42% and its Emerging Markets index lost 8.78%. The most prominent European benchmarks all retreated 5% or more on the month: the IBEX 35 slumped 5.28%; the CAC 40, 7.28%; the DAX, 6.53%; the FTSE 100, 5.09%; the FTSE Eurofirst 300, 5.39%. Russia's Micex lost 4.95%. In the Asia-Pacific region, the Shanghai Composite absorbed a 7.75% October loss; Australia's All Ordinaries dropped 5.72%. In India, the Sensex lost 4.93%, while the Nifty 50 fell 4.98%. To our north, the TSX Composite ceded 6.51% last month. [11,12]

COMMODITIES MARKETS

Light sweet crude and unleaded gasoline relinquished considerable ground in October. Oil ended the month at $65.02, falling 11.62%; gasoline shed 16.82%. October also saw natural gas add 9.00%, while heating oil lost 4.41%. In soft commodities, double-digit gains came for coffee (10.20%) and sugar (32.82%). Cocoa futures climbed 7.79%; cotton futures, 2.83%; corn futures, 2.03%. Soybeans retreated 0.83% and, wheat, 1.62%. [13]

Gold posted an October gain of 2.38%, settling at $1,218.20 on the COMEX on Halloween. Silver lost 1.82% for the month, ending October at $14.28. Copper lost 4.56% for the month; platinum rose 2.91%. The greenback grew stronger in October: the U.S. Dollar Index advanced 2.08%. [13,14]

REAL ESTATE

Sometimes, the real estate sector transmits the first hint that a business cycle is weakening when home sales and groundbreaking begin to taper off. The jury is out on whether this is currently happening or whether the housing market is simply seeing a temporary slump. Admittedly, the latest indicators were not encouraging. [15,16,17]

The National Association of Realtors announced a 3.4% retreat for resales in September and projected a 1.6% decline in existing home sales for 2018. A Census Bureau report showed the rate of new home buying weakening 5.5% in the ninth month of the year. (At least NAR's pending home sales index rose 0.5% in September, a nice change from its 1.9% August setback.) As for residential construction activity, further Census Bureau data had housing starts down 5.3% for September, building permits down 0.6%. [4,15]

Home loan interest rates climbed significantly between Freddie Mac's September 27 and October 25 Primary Mortgage Market Surveys. The mean rate for the 30-year FRM rose from 4.72% to 4.86%. Similar moves occurred for the 5/1-year ARM (3.97% to 4.14%) and the refinancer's favorite, the 15-year FRM (4.16% to 4.29%). As rates rose, real estate analysts also noted the slimming 12-month advance made by the 20-city S&P CoreLogic Case-Shiller home price index. The August edition arrived last month, and the annualized price gain was 5.8%, the smallest in a year. [16,17]

TIP OF THE MONTH

Some travelers routinely buy car rental insurance. That may not be necessary, because ***most personal auto insurance policies and some credit cards provide rental car coverage****. Consumers should ask their insurer or card issuer just what is covered before they arrange a rental vehicle.*

LOOKING BACK, LOOKING FORWARD

Small caps truly had a difficult October. The Russell 2000 corrected, losing 10.91% and wiping out its YTD gain. It ended the month at 1,541.11. Blue chips lost less than half that: the Dow Jones Industrial Average fell 5.07% to 25,115.76 across October. A 6.94% monthly loss left the S&P 500 at 2,711.74 on Halloween. The Nasdaq Composite stumbled 9.20%, ending October at 7,305.90. Just how much did the CBOE VIX soar for the month? 75.17%. At the close on October 31, it settled at 21.23. [18,19]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	1.60	7.44	12.31	16.93
NASDAQ	5.83	8.59	17.28	32.45
S&P 500	1.43	5.30	10.88	17.99

REAL YIELD (%)	10/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	1.10	0.50	0.40	3.14

Sources: wsj.com, bigcharts.com, treasury.gov - 10/31/18 [19,20,21,22]

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

After the beating stocks took in October, will they recover to any great degree in November? A short-term bottom may not be immediate for either the Dow, S&P, or Nasdaq, as the concerns over central bank tightening, rising input costs, and reduced profits for businesses, tariffs, and reduced forecasts for growth in the European Union and Asia linger. It is a good bet that the market will see additional abrupt volatility; certain sectors of the market, like tech and energy, may be greatly impacted by outcomes in the midterm elections. If the results of those elections lead to a stalemate between the two major parties in Congress for the next two years, Wall Street might manage a decent advance – as a *Forbes* article recently noted, the S&P 500 has gained an average of 7.1% during periods featuring a split Congress, regardless of which party occupies the Oval Office. That is history, not the future – but that is still somewhat encouraging. Investors could use some encouragement as they try to gauge the length of this presumably late phase of the bull market. [23]

QUOTE OF THE MONTH

*"I have **learned** that to be with those I like is **enough** ."*

WALT WHITMAN

UPCOMING RELEASES

As the rest of November progresses, Wall Street and Main Street will take notice of the latest ISM service sector index (11/5), the midterm elections (11/6), a Federal Reserve interest rate decision (11/8), the University of Michigan's preliminary November consumer sentiment index and the October Producer Price Index (11/9), the latest Consumer Price Index (11/14), October retail sales (11/15), October industrial production (11/16), a new monthly housing construction snapshot from the Census Bureau (11/20), October existing home sales and hard goods orders and the Conference Board's October leading indicators index (11/21), the final November consumer sentiment index reading from the University of Michigan (11/23), the Conference Board's November consumer confidence index (11/27), October new home sales and the second estimate of Q3 GDP (11/28), and then October pending home sales and personal spending and the October PCE price index (11/29).

THE MONTHLY RIDDLE

*It is as **old** as the world, and yet **new** each month. What is it?*

LAST MONTH'S RIDDLE: A thief steals $100 from a cash register at a store. An hour later, he returns with the same $100 and buys $70 worth of goods, receiving $30 back in change. How much does the store ultimately lose to the thief?

ANSWER: $100. The store loses $70 of goods, plus the $30 in cash it returns to the thief as change.

Tim Redmond may be reached at 714 257-7400 or info@newcastlefa.com
www.newcastlefa.com

Know someone who could use information like this?
Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

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exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The DAX 30 is a Blue-Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The FTSEurofirst 300 Index comprises the 300 largest companies ranked by market capitalisation in the FTSE Developed Europe Index. The MICEX 10 Index is an unweighted price index that tracks the ten most liquid Russian stocks listed on MICEX-RTS in Moscow. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The All Ordinaries (XAO) is considered a total market barometer for the Australian stock market and contains the 500 largest ASX-listed companies by way of market capitalization. The BSE SENSEX (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE). The Nifty 50 (NTFE 50) is a well-diversified 50-stock index accounting for 13 sectors of the Indian economy. It is used for a variety of purposes such as benchmarking fund portfolios, index-based derivatives and index funds. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

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Timothy G. Redmond, MSFS, CFP®
President
Newcastle Financial Advisors, Inc.
2266 N. State College Blvd, Fullerton, CA 92831
Phone: 714 257-7400
tredmond@newcastlefa.com www.newcastlefa.com