Eideard Group
GUARDIANS OF PROSPERITY

Market Commentary **Fall 2017**

Milestones Along the Way

The end of the third quarter marked a couple of new milestones for the US economy. According to the National Bureau of Economic Research, the current economic expansion is now the third longest on record having breached 8.5 years and counting. The only other expansions of greater duration occurred over the decade of the 1990's (1991 – 2001) and in the 60's (1961- 1969).

Concurrently, the post great-recession bull market in stocks has also just breached its 7.5 year mark making it the second longest bull run in history behind that of the dot.com boom of the 1990s and just ahead of the post WWII 7 year run (1949-1956). Against these parallel achievements, US economic data remains relatively robust, unemployment at historic lows, inflation muted and interests rates benign.

Meanwhile, the US stock market - arguably rich by any measure - continues to register nominal new highs. At quarter's close, US equities as measured by the Russell 3000 broad market index gained another +4.6% to post a cumulative return of +13.9% on the year. Large cap stocks and growth style investing continued to lead the advance by wide margins as has been the case all year. All equity sectors, but for energy, have consistently participated in the market's advance through the third stanza. As we see it, notwithstanding that equity prices are lofty, investors can take comfort knowing that robust earnings growth is providing meaningful support to these valuations. So too and so far, the market's advance has not, like previous runs, been accompanied by any particular exuberance or sizzle both of which are among the first to portend an imminent contraction. And, unlike previous financial conditions, there seems to be no apparent market dislocations from which cash flows have been channeled into stocks.

On the flip side, the bond markets also continue to perform well. To witness, the Barclays 10 Year Municipal Bond index posted +5.3% on the year to date while investment grade corporates - as measured by the Barclays Aggregate Bond index - registered +3.4%; and its higher yielding counterpart the Barclays' Government Corp/High Yield index posted +4.9%.

While the possibility always exists that bond prices could turn down quickly in reaction to swift, sharp and prolonged rate increases, current conditions including persistently low inflation would seem to all but dismiss this outcome over the coming months - perhaps even years - particularly if structural changes to the US economy, as have been advanced, are real. The Fed also seems to be signaling that it is betwixt and between hawk and dove as it cautiously weighs whether to impose a third funds' rate increase in December. It appears more intent on offloading its balance sheet QE bonds which would impact the longer end of the yield curve. For now, the continuing expansion translates into welcome news for municipal bond investors whose returns are attributable to increasing tax revenues across the public sector, an intractable need for new

infrastructure spend across the country and the likelihood that any proposed legislation to cap municipal bond income for the wealthy will be abandoned as part of the Administration's proposed tax legislation. For taxable bondholders, similar comfort can be found in robust corporate earnings growth, the prospect of lower corporate tax rates, low default rates across the credit spectrum and a continuing appetite to issue inexpensive corporate debt in lieu of higher cost equity capital.

On a more global note, there is also a certain comfort in knowing that the US is not alone in its current expansion. For what seems to be a "first" since the Great Crisis, the global community finally appears to be in economic and financial market sync. US equity market returns - as respectable as they've been through September - pale against both developed international equities and emerging market stocks, each of which have registered +20% and +28% respectively through September.

To this writer at least for now, the world appears to be on a quiet but comfortable roll across most markets around the globe with what seems to be little financially driven risk to the downside. The same cannot be said with as much conviction for geopolitical risk.