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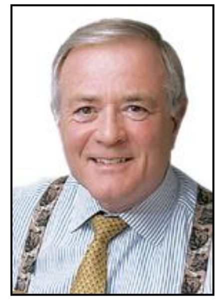
William Rutherford

Markets charge to new highs as global economy expands

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With the global economy further recovering from the financial crisis of 2007-2009, equity indices around the globe pushed higher. In October, usually a bad month for markets, the S&P rose 2.2 percent as a result of strong earnings, and anticipation of tax reform. Consumer confidence, as measured by the Conference Board, hit a very high 129.9.

Personal spending rose 1 percent in September – the largest monthly gain since August 2009. Retail sales soared, rising 1.6 percent in September. The spending was partially a result of the need to replace cars and trucks damaged by hurricanes and floods. Manufacturing and service industries expanded at a robust pace. The purchasing manager index reached a 15-year peak and the service sector index reached a 12-year high. Orders for durable goods, such as defense spending, rose 2.2 percent, and it appears that growth is on track at a 3 percent clip.

Globally, the economy continued its expansion.

The Federal Reserve left U.S. interest rates unchanged, but a quarter-point increase is surely on deck for December. Meanwhile, the European Central Bank left its short-term interest rate at zero, but indicated it will wind down its bond purchases. In Japan, with inflation at 1.4 percent, the Bank of Japan left interest rates unchanged. China's economy slowed somewhat for the month. President Xi had no comment.

U.S. corporate earnings were strong. With 81 percent of the companies in the S&P 500 reporting actual results for the third quarter, 74 percent reported positive earnings surprises and 66 percent reported positive sales surprises. For the third quarter of 2017, the blended earnings growth rate for the S&P 500 was 5.9 percent. Six sectors reported earnings growth for the quarter, led by energy.

The estimated earnings growth rate for the third quarter was 3 percent. Seven sectors have higher growth rates today (compared to Sept. 30) due to upward revisions to earnings estimates and upside earnings surprises, led by energy, information technology and materials sectors.

For the fourth quarter, 51 S&P 500 companies have issued negative EPS (earnings per share) guidance and 26 S&P 500 companies have issued positive EPS guidance. The forward 12-month

P/E (price-earnings) ratio for the S&P 500 is 18. This P/E ratio is above the five-year average (15.7) and above the 10-year average (14.1).

One could say that the economy is recovering well from the financial crisis, and that the Federal Reserve and its chairpersons Ben Bernanke and Janet Yellen have done a good job of steering the economy. President Trump, however, dismissed Yellen as chairwoman. Replacing a Fed leader before the end of her first term is highly unusual, especially since her replacement, Jerome Powell, has pledged to continue Yellen's policies.

It is said that Powell, who always voted with Yellen, is "just like Yellen." So why not stick with Yellen? And after all, when Trump and Yellen had their private meeting, Trump came away very favorably impressed. But Trump had painted himself into a corner. Throughout his campaign, Trump had used Yellen as a punching bag. He found her responsible for all of his grievances with the economy. So she had to go.

The new Fed chairman is not an economist. He has plenty of experience in Washington and is part of the Republican establishment – the same group that Trump pledged to get rid of. His experience has been on the capital markets side of the economy. Time will tell how this translates into leadership for the total economy. On regulation, he may have some revisions, but they are not expected to be great. So, it may be business as usual, but without the same perspective.

Our advice to stay invested in a diversified portfolio has been highly successful. Our portfolios are up very strong year to date. We continue to advise the same approach.

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