Market Currents

· **Longest Bull Market in History.** The longest bull market in history is showing few signs of excessive fatigue. Market volatility has waxed and waned as concerns over trade protectionism and inflation have percolated, but investors have focused more on solid US economic momentum. The S&P 500 pushed higher by more than 7% in the third quarter – the strongest quarter for the index since 2013.

· **New Trade Agreements.** The U.S. and Canada reached a preliminary trade deal agreement at the 11th hour to modernize NAFTA, providing President Trump with a crucial political win. Along with an earlier U.S.-Mexico agreement, the trilateral bloc will be the first major update to the 25-year old North American Free Trade Agreement. The new trade deal bears many similarities to NAFTA, but includes some new features such as increased dairy-market access for the U.S., and tougher domestic content rules for autos.

· **The Chinese Dilemma.** Even as the Trump administration takes a victory lap in the wake of the new trade deal with Canada and Mexico, Beijing and Washington remain locked in a spiraling trade war that has seen them level increasingly severe rounds of tariffs on each other's imports. Friction between the world's top two economies is now moving beyond trade, with President Trump accusing China of seeking to interfere in congressional elections. A key diplomatic and security meeting between the two countries was also cancelled.

· **Midterm Elections.** With the midterm elections looming and political posturing kicking into high gear, investors are adopting a "wait and see" approach. Approval ratings and polls imply that a Democratic House and Republican Senate majority is the most likely outcome, although it remains a fairly tight contest. Historically however, the partisan composition of leadership in Washington has provided limited insight on the market's forward trajectory.

· **Flattening Curve**. The Federal Reserve raised rates for the third time this year, and signaled another rate hike is in the cards for December. The yield curve – the difference in yields between short- and long-term Treasury bonds – continues to flatten. Historically, an *inverted* yield curve - where short rates are higher than long rates - has been an excellent predictor of a US recession. Whether this time is different, we will not know for sure. The curve is not near inverted status yet, and few economists are expecting an incipient recession.

· **(Still) Cautiously Optimistic**. We believe the home stretch of 2018 remains supportive for risk assets. Strong earnings momentum, a healthy domestic consumer, corporate tax cuts, and fiscal stimulus underpin our positive view. However, we acknowledge that sentiments can change rapidly. Risks to our outlook would arise from unexpected inflationary pulses, worsening relations with China, a midterm "blue sweep," or a rapid pullback from in consumer activity.

Christopher Lai
Senior Portfolio Manager
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