



Weekly Market Review

By: Jim Rambo, Allegheny Research Team



The Week Ending October 13, 2018

Investors exhibited nervousness last week as markets sold off due to a variety of reasons. The S&P 500 declined by -4.1%, the Russell 2000 (domestic small cap stocks) declined by -5.2%, and the MSCI EAFE (foreign stocks) decreased by -3.9%. The bond market held up well last week with rates receding some after recent weeks of increases. The ten-year Treasury closed the week yielding 3.16% compared to a recent peak of 3.23%.



One development was the International Monetary Fund cutting their global economic growth forecast from 3.9% to 3.7% for next year citing trade tensions and instability in emerging markets as the reasons for the downgrade. With third-quarter earnings coming just around the corner, some companies are issuing warnings that profits will be less than expected. However, it is too early to tell if U.S. companies will be able to maintain the 20%+ earnings growth that they've been putting up for the first two quarters in 2018.

The Consumer Price Index (CPI), the Fed's key measure for inflation, came in at 2.2% for September which was below the market's expectation of 2.3%. The strong wage growth numbers over the past couple of months have had the market worrying that the Fed would need to raise rates more quickly than planned, which would then, in turn, stifle economic growth. President Trump has criticized the Fed's decisions to hike rates as "crazy" and "out of control" as the hikes act to strengthen the U.S. Dollar and dampen economic growth which is the opposite of what he would want. Up to this point, the market has not put too much stock into the President's Fed comments. Politicians have largely stayed away from the Fed and allowed them to act independently as the nonpartisan group that they are. The precedent for politics to influence the Fed's rate policy are troublesome. President Nixon pressured the then-Fed Chairman, Arthur Burns, to keep rates low in the late 70's, which helped lead to the hyperinflationary environment that we saw in the 80's. But for now, it just seems that President Trump is looking for sound bites rather than actual policy change.



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