DorchesterAdvisors LLC
Dushyant Pandit
Summit, NJ
908-608-1608
dpandit@dorchesteradvisors.com
www.DorchesterAdvisors.com

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Q3 was strong – our 5 assets classes had positive returns and US Equities (SP500) hit an all-time high late Sept. But, that was a week ago… Early Oct saw declines in all 5 asset classes, except Cash, and sharp market declines on 10/10/2018 prompts the question: Is this "it"?

Is this decline due to poor fundamentals or is it just market emotions? It's unlikely that fundamentals have universally declined in 10 days, nor do we know what Q3 earnings will be. And, even after the 10/10/18 decline, the SP500 index is just about where it was about 3 months ago.

Nor do we see any safe harbor. Interest rates will more likely rise (a wide-spread view) which will lower Bond prices. Moving assets into Cash is really market timing, an unreliable investment approach. Other asset classes have the same uncertainties as do Equities.

We think well diversified US equity portfolios are not abnormally risky; but we DO view the near future as uncertain. And, paraphrasing Eckhart Tolle: "When you become comfortable with uncertainty, infinite possibilities open up in life (portfolios)".

For investors with long time horizons (e.g. retirement) a sensible and prudent investment approach will likely prevail. "Compound interest is the 8th wonder of the world - Those who understand it, earn it and those who don't, pay it". (Einstein). We agree and are currently inclined to be vigilant but non-reactive.

Key Dates/Data Releases

10/1: PMI Manufacturing Index, ISM Manufacturing Index

10/5: Employment situation, international trade

10/10: Producer Price Index

EMBRACING UNCERTAINTY - Q3 2018 MARKET REVIEW

The Markets (as of market close September 28, 2018)

The third quarter proved to be very strong for domestic stocks. July saw the major benchmark indexes listed here enjoy robust gains, led by the large caps of the Dow and S&P 500. Global stocks also rebounded in July, with the Global Dow surging 3.76% by the end of July. Favorable economic indicators and encouraging corporate earnings reports were enough to quell investor concerns over the continuing saga that is the back-and-forth trade tariffs between the United States and China.

August saw stocks continue to push ahead. Several of the benchmark indexes listed here reached record highs during the month. Both the Dow and S&P 500 posted monthly gains of 2.16% and 3.03%, respectively. However, tech stocks and small caps made notable monthly gains. The Nasdaq increased by almost 6.0%, while the Russell 2000 eclipsed 4.0%. Corporate earnings continued to soar on the heels of corporate tax cuts, consumer spending, and global growth.

Toward the end of September, a new round of reciprocal tariffs between the United States and China kicked in as it appears neither economic giant is ready to flinch. The United States imposed an additional $200 billion in tariffs on Chinese

10/11: Consumer Price Index, Treasury budget

10/12: Import and export prices

10/15: Retail sales

10/16: JOLTS, industrial production

10/17: Housing starts

10/19: Existing home sales

10/24: New home sales, FOMC meeting

10/25: Durable goods orders, international trade in goods

10/26: GDP

10/29: Personal income and outlays

goods, prompting China to assess $60 billion worth of tariffs on U.S. products. This follows each country's initial volley of $50 billion in tariffs on their respective imports. As a result, the benchmark indexes listed here produced a mixed bag of returns for the month. The large caps of the Dow and S&P 500 posted gains, as did the Global Dow, which rose a strong 1.50% for September. However, the Nasdaq and the Russell 2000 fell from their August end-of-month values.

For the third quarter, each of the indexes listed here posted solid gains, led by the large caps of the Dow and the S&P 500. The tech-heavy Nasdaq continued its strong showing while the small caps of the Russell 2000 posted moderate quarterly gains. Prices for 10-year Treasuries dropped by the end of the quarter, pushing yields higher by 20 basis points. Crude oil prices closed the quarter at about $73.53 per barrel by the end of September, $0.72 per barrel lower than prices at the close of the second quarter. Gold closed the quarter at roughly $1,195.20, noticeably lower than its $1,254.20 price at the end of June. Regular gasoline, which was $2.833 on the 25th of June, inched higher to $2.844 on September 24.

Market/Index	2017 Close	As of September 28	Month Change	Quarter Change	YTD Change
DJIA	24719.22	26458.31	1.90%	9.01%	7.04%
NASDAQ	6903.39	8046.35	-0.78%	7.14%	16.56%
S&P 500	2673.61	2913.98	0.43%	7.20%	8.99%
Russell 2000	1535.51	1696.57	-2.54%	3.26%	10.49%
Global Dow	3085.41	3121.54	1.50%	4.77%	1.17%
Fed. Funds	1.25%-1.50%	2.00%-2.25%	25 bps	25 bps	75 bps
10-year Treasuries	2.41%	3.06%	21 bps	20 bps	65 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Last Month's Economic News

- **Employment:** Total employment rose by 201,000 in August after adding 147,000 (revised) new jobs in July. The average monthly gain over the last 12 months is 196,000. Notable employment gains for the month occurred in professional and business services (53,000), health care (33,000), and wholesale trade (22,000). The unemployment rate was unchanged for the month at 3.9% (4.4% in August 2017). The number of unemployed persons fell to 6.2 million (7.1 million unemployed in August 2017). The labor participation rate was relatively unchanged at 62.7%. The employment-population ratio decreased 0.2 percentage point to 60.3%. The average workweek in August was unchanged at 34.5 hours. Average hourly earnings increased by $0.10 to $27.16. Over the last 12 months, average hourly earnings have risen $0.77, or 2.9%.

- **FOMC/interest rates:** The Federal Open Market Committee met in late September and raised the target rate range 25 basis points to 2.00%-2.25%. This is the highest rate since April 2008. There is also the likelihood that another 25 basis point increase is on tap for December, with the possibility of three more hikes coming next year.

- **GDP/budget:**The second-quarter gross domestic product showed the economy expanded at an annualized rate of 4.2%, according to the Bureau of Economic Analysis. The first-quarter GDP grew at an annualized rate of 2.2%. According to the report, consumer spending surged, expanding at a rate of 3.8% (0.5% in the first quarter). Net exports expanded by 9.3%. Imports fell 0.6%, while government spending grew by 2.5% (1.5% in the first quarter). The government deficit sits at roughly $898 billion through August — an increase of almost $224 billion, or 33.3%, over the same period last fiscal year. The deficit increased by $137 billion in August over July. Through 11 months of the fiscal year, individual tax receipts are up 7.0% while corporate tax receipts are down 30.4%.

- **Inflation/consumer spending:** Inflationary pressures have remained weak while consumer spending continues to be strong. Prices for consumer goods and services rose only 0.1% in August, the same mark reached in July. Core consumer prices, a tracker of inflationary trends, showed no increase following July's 0.2% gain. Core prices (excluding food and energy) have increased 2.0% over the last 12 months. Consumer spending climbed 0.3% in August after jumping 0.4% in July. Consumer income (pre-tax and after-tax) rose 0.3% for the month.
- The Consumer Price Index rose 0.2% in August after increasing 0.2% in July. Over the last 12 months ended in August, consumer prices are up 2.7%. Core prices, which exclude food and energy, climbed 0.1% for the month and are up 2.2% over the 12 months ended in August.
- According to the Producer Price Index, the prices companies receive for goods and services actually fell 0.1% in August after remaining unchanged in July from June. Producer prices have increased 2.8% over the 12 months ended in August. Prices less food and energy also dropped 0.1% in August from July, and are up 2.9% over the last 12 months.
- **Housing:** New home sales rose 3.5% in August after falling 1.7% in July. Sales are up 12.7% over the August 2017 estimate. New home prices fell in August. The median sales price of new houses sold in August was $320,200 ($328,700 in July). The August average sales price was $388,400 ($389,000 in July). Inventory rose to an estimated 6.1-month supply, slightly behind July's 6.2 months. Sales of existing homes didn't expand in August, but they didn't slow down either, as they maintained their pace set in July. Year-over-year, existing home sales are down 1.5%. The August median price for existing homes was $264,800, down from $269,600 in July. Nevertheless, prices are up 4.6% from August 2017. Total housing inventory for existing homes for sale in August remained unchanged from July, representing a 4.3-month supply at the current sales pace.

- **Manufacturing:**Industrial production advanced 0.4% in August, its third consecutive monthly increase. For the year, industrial production has advanced 4.9%. Manufacturing output increased 0.2% following a 0.3% increase in July. The output of utilities moved up 1.2% on the heels of a marginal 0.1% bump in July. The index for mining gained 0.7%. New orders for long-lasting durable goods, up two of the past three months, grew a robust 4.5% in August, following a 1.2% July decrease. Shipments jumped 0.8% and unfilled orders increased 0.9%, while inventories decreased 0.4%.

- **Imports and exports:**The advance report on international trade in goods revealed that the trade gap expanded in August by $3.8 billion, or nearly 5.0%, over July. The deficit for August was $75.8 billion compared with July's deficit of $72.2 billion. August exports of goods fell 1.6%, while imports increased 0.7%. Prices for imported goods fell 0.6% in August after dropping 0.1% in July. Export prices decreased 0.1% for the month. Over the last 12 months ended in August, import prices are up 3.7%, while export prices have advanced 3.6%.

- **International markets:** Some global stocks have enjoyed a strong run of late. Japanese stocks have approached highs not seen since the early 1990s. Germany, France, and the United Kingdom all saw gains in their respective stock benchmarks. While stocks have flourished, tensions have risen between the United Kingdom and the European Union as they continue to hash out a Brexit deal. Throughout the past several months, the ever-escalating trade battle between the United States and China has weighed on investors around the globe. Toward the end of the month, Chinese stock benchmarks gained strength, possibly signaling investor apathy toward the potential impact of the trade war with the United States.

- **Consumer confidence:**Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, soared in September, nearing an 18-year high. Consumer confidence in present economic conditions grew, as did consumer expectations for continued economic growth.

Eye on the Month Ahead

The summer months proved full of volatility for stocks, as investors were inundated with negative rhetoric between the United States and several of its trade partners. The last quarter of the year is expected to bring much of the same. The Federal Open Market Committee meets twice more, in early November and mid-December, with the likelihood of at least one more interest rate increase on tap. The economy enjoyed robust growth during the second quarter, according to the gross domestic product. Will growth approach 4.0% in the last quarter of the year? If consumer spending continues to expand as it did during the summer months, economic expansion could equal or surpass third-quarter growth rate.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.