

### Third Quarter Summary

U.S. stocks had their best third quarter since 2013, with the S&P 500 Index rising 7.7%. The two 10% corrections from the first quarter seem but a distant memory, with the S&P 500 up 10.6% on a year-to-date basis through the end of September. Strong earnings and a lessening of global trade tensions were among the catalysts for the gains. The successor to NAFTA, the US-Mexico-Canada Agreement (USMCA) was officially announced on October 1<sup>st</sup>, although rumors of an agreement surfaced before the third quarter came to a close. Small-cap stocks continued moving upward, with the Russell 2000 increasing 3.6% over the third quarter and 11.5% on a year-to-date basis. International stocks remained laggards, partially due to the effects of a strong U.S. Dollar, with the MSCI World Index (ex-U.S.) up a modest 1.3% over the quarter and down 1.5% on a year-to-date basis.

The Federal Reserve continued to hike short-term interest rates, with the Fed Funds rate increasing 0.25% on the heels of the Fed's September Open Market Committee meeting. This marks the third 0.25% increase in interest rates this year and the Fed seems poised to raise rates another 25 basis points after its December meeting. The benchmark 10 Year U.S. Treasury Note continued to edge upward, ending the quarter at a 3.06% yield. The Barclay's Aggregate Index, the most widely cited bond index, increased a miniscule 0.02% over the quarter, trimming its year-to-date loss to a disappointing, but manageable 1.6%. The traditional indicators of domestic economic strength remain strong. U.S. GDP officially grew at a robust 4.2% rate in Q2 and is projected to grow at 4.4% once the official numbers are tallied for Q3. The unemployment rate remained at 3.7%, a 49-year low.

### Market Outlook

The current bull market, which began in March of 2009, is now officially the longest bull market on record since at least the 1900s. To borrow an expression, "Bull markets don't die because of old age." Accordingly, we remain moderately optimistic on stocks due to the strong economy and solid expected earnings growth. In our view, stocks will increase in proportion to earnings growth in the year ahead, or roughly 8% - 10%. With the S&P 500 trading at roughly 16.5x forward earnings, we don't believe further multiple expansion is likely. The increase in interest rates across the maturity spectrum from the near zero level that existed for many years subsequent to the Great Recession has created some competition for stocks, especially among skittish investors. We now think it is likely that the Fed will raise interest rates four times this year, up from our prior view of three or more increases of 0.25%. As long as the unemployment numbers remain low, we feel that the Fed prefers to continue its gradual interest rate hike path, so it has some ammunition when the next downturn inevitably occurs. According to the Fed's "dot plot" another three increases of 0.25% are likely in the cards for 2019. We don't want to get ahead of ourselves, but we continue to see a gradually rising path for interest rates looking out over the next twelve months. Accordingly, we continue to favor high quality municipal bonds, floating rate bonds, and shorter duration investment grade bonds. Portfolio diversification has been detrimental to returns this year due to the S&P 500 outperforming virtually all other asset classes, but we believe this time tested strategy will ultimately prove its worth. Putting all of your investment eggs in one proverbial basket has rarely been a sound long-term investment strategy, despite the temptation to do so during very strong equity markets.

With North American trade tensions largely behind us, the elephant(s) in the international trade room remains U.S. and China. There seems to be some fundamental disagreements on trade between the two global titans and there are some indications that the U.S. may first look to settle its trade disputes with the members of the European Union. This dynamic raises the possibility of the U.S. and Europe "ganging up" on China in order to have a stronger bargaining position. In any event, the threat of a global trade war remains our most important risk to the global financial markets. Rising interest rates and a related increasing federal budget deficit remain another risk to derailing the current expansion. Threat of war with North Korea has been moved to the back burner, for now, in light of the "love letter" relationship between President Trump and Kim Jong-un. However, a simmering international risk is underway in Italy. The new populist government appears poised to run a budget deficit in

excess of European Commission standards. Since the Italian economy is much larger than Greece's, a fiscal standoff between Rome and EC economic leadership in Brussels would likely increase contagion risk and be viewed unfavorably by the financial markets.

### John M. Longo, PhD, CFA

Chief Investment Officer, Portfolio Manager

 **Beacon Trust** 163 Madison Avenue, Suite 600 | Morristown, NJ 07960 | 973.377.8090 | [BeaconTrust.com](http://BeaconTrust.com)

Important Information: Beacon Investment Advisory Services, Inc. ("BIAS") is an SEC registered investment adviser, under the name Beacon Trust, and is wholly owned by Beacon Trust Company ("BTC"), which is a subsidiary of Provident Bank. Provident Bank is a subsidiary of Provident Financial Services, Inc., a holding company whose common stock is traded on the New York Stock Exchange. Beacon Trust may only transact business in those states where they are notice filed or qualify for a corresponding exemption from notice filing requirements. Additional information is contained in the respective Form ADV disclosure documents, the most recent versions of which are available on the SEC's Investment Adviser Public Disclosure website at <http://www.adviserinfo.sec.gov>.

SECURITIES AND INVESTMENT PRODUCTS: Not FDIC Insured | May Lose Value | No Bank Guarantee

This publication is limited to the dissemination of general information pertaining to the wealth management products and services offered by Beacon to U.S. residents of those states where not prohibited by applicable law. No portion is to be construed as a solicitation to effect transactions in securities or the provision of personalized investment, tax, or legal advice. Investing involves risks which may lead to losses, including loss of principal. Different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will be profitable. Any reference to a market index is included for illustrative purposes only, as it is not possible to directly invest in an index. Indices are unmanaged vehicles that serve as market indicators and do not account for the deduction of management fees or transaction costs generally associated with investable products, which otherwise have the effect of reducing the performance of an actual investment portfolio. Calculation methodologies are available from BIAS upon request. **Past performance is not a predictor of future results.** It should not be assumed that any information discussed herein will prove to be profitable or that decisions in the future will be profitable or provide specific performance results. Any discussion of tax matters contained within this communication should not be used for the purpose of avoiding U.S. tax related penalties or promoting, marketing, or recommending to another party any transaction or matter addressed herein. Beacon Trust does not provide legal advice. 00086207