



Kalorama Wealth Strategies, LLC

**2136 12th Place, N.W.
Washington, D.C. 20009-7507**

Phone: 202.550.7262

www.kaloramawealth.com

Third-Quarter 2018 Market Review ~ Ding! Ding! Ding!

October 2018 - Ding! Ding! Ding! As the Wall Street saying goes, "They don't ring a bell at the top"! But that shouldn't stop us from celebrating, so break out the bells, whistles, and party hats! As the Standard & Poor's 500-Stock index hit an all-time intra-day high (2,873.23) on August 21, the next day marked the longest bull run in history. Although U.S. stocks have had "corrections" (defined as a drop of 10% or more from a recent high) along the way, they avoided a 20% bear-market drop for a period of 3,453 days (113 months) since the market bottom in March 2009.

With the economy and corporate earnings tanking in the aftermath of the financial crisis, the bull move began with despair on March 9, 2009 when the S&P 500 sank to an ominous 666. The S&P 500 is up more than 330% since the March 2009 low point. Notably, the now second longest bull market ended in 2000 with the dot.com crash.

In early August, Apple became the first U.S. company to hit \$1 trillion in market capitalization (stock price times shares outstanding).

September marked the 10th Anniversary of the beginnings of the financial crisis when Wall Street and other titans began to fail and risk the entire financial system. Mortgage giants Fannie Mae and Freddie Mac were taken over by the federal government, Wall Street investment bank Lehman Brothers filed for bankruptcy, Merrill Lynch escaped a potential similar fate by merging with Bank of America, and insurance behemoth AIG was bailed out by the Treasury and Federal Reserve.

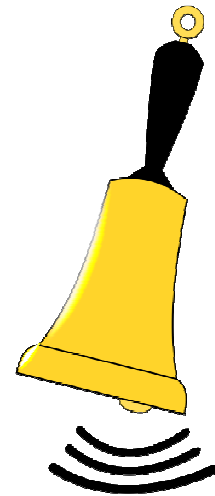
Turning to brighter pastures, domestic stocks rallied across the board in the third quarter. The Dow Jones Industrial Average jumped 9.0%, the S&P 500 (total return) climbed 7.7%, and the NASDAQ Composite index advanced 7.1%. For the first nine months of 2018, the Dow Jones gained 7.0%, the S&P 500 (total return) swelled 10.6%, and the NASDAQ surged 16.6%.

Meanwhile, international indices remained in negative territory through the first nine months of 2018: Developed Large Cap is off by 1.0%, Developed Small Cap lower by 1.9%, and Emerging Markets sinking 7.4%.

Bond sector returns were mixed for the third quarter and first nine months of 2018. With the exception of U.S. Corporate High Yield and International Emerging Markets, which rose by 2.4% and 1.6%, respectively, bonds were mostly lower or flat for the quarter.

The biggest movers at the three-quarter point were U.S. Aggregate, dipping 1.6%, International Emerging Markets, sliding 2.3%, while U.S. Corporate High Yield moved ahead by 2.6%.

The yields on two and 10-year U.S. Treasury notes continued their ascent in the second quarter, rising by 29 and 21 basis points to 2.82% and 3.07%, respectively. The yield curve continued to flatten, with the two-ten note-spread dropping to 25 basis points from 33 at the start of the quarter.



The Federal Reserve met twice during the quarter, leaving interest rates unchanged at the first meeting, while raising its short-term target by a quarter percent at the second to a range of 2.0% to 2.25%. It was the third rate hike in 2018 and the eighth since the Fed began lifting rates off near-zero in December 2015. With a strong economy, low unemployment, and firming wages, an additional hike is expected in December and three are anticipated for 2019. Economic growth of 3.1% is projected for all of 2018, which would be the first time it has exceeded 3.0% annually in more than a decade. Growth of 2.5% is estimated for 2019.

Below are rates of return for selected market indices for the third quarter and first nine months of 2018, and the three, five, and 10-year compound annual returns as of December 31, 2017.

	<u>3Q:2018</u>	<u>YTD-2018</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Equity (Stock) Indices</u>					
Domestic					
Russell 1000 - Large Cap	7.42%	10.49%	11.23%	15.71%	8.59%
Russell Midcap	5.00%	7.46%	9.58%	14.96%	9.11%
Russell 2000 - Small Cap	3.58%	11.51%	9.96%	14.12%	8.71%
Real Estate (FTSE NAREIT Equity REITs)	0.79%	1.81%	5.62%	9.46%	7.44%
Commodity (S&P Global LargeMidCap)	1.21%	4.22%	4.38%	0.09%	-0.53%
International					
MSCI EAFE Developed Large Cap	1.42%	-0.98%	8.30%	8.39%	2.42%
MSCI EAFE Developed Small Cap	-0.81%	-1.87%	14.60%	13.23%	6.14%
MSCI Emerging Markets	-0.95%	-7.39%	9.50%	4.73%	2.02%
Global - MSCI All Country IMI	4.00%	4.12%	10.10%	11.58%	5.53%
<u>Fixed-Income (Bond) Indices</u>					
Bloomberg Barclays					
Global Aggregate - Unhedged	-0.92%	-2.37%	2.02%	1.24%	3.35%
Global Aggregate - Hedged	-0.05%	0.02%	2.66%	NA	NA
U.S. Aggregate	0.02%	-1.60%	2.24%	2.10%	4.01%
U.S. Treasury TIPs	-0.82%	-0.84%	2.05%	1.54%	4.25%
U.S. Corporate High Yield	2.41%	2.57%	6.35%	5.00%	7.63%
Municipal	-0.15%	-0.40%	2.98%	3.62%	4.76%
International Emerging Markets	1.62%	-2.28%	6.38%	5.00%	7.59%

Source: ftserussell.com, reit.com, us.spindices.com, msci.com, bloombergindices.com

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M. David Goldstein, CFA, CFP®
 2136 12th Place, N.W., Washington, D.C. 20009
david@kaloramawealth.com ~ www.kaloramawealth.com
 (202) 550-7262