

A snapshot of last week's market performance and what to watch in the week ahead from Louis Shaff, Cabana CFO and co-founder.

The U.S. markets closed out the third quarter with its best quarterly gain since the fourth quarter of 2013. The S&P 500 rose 7.2%; the Nasdaq gained 7.12%; and the Dow Jones was higher by 9.3%. The fuel for these strong gains was once again stronger than expected quarterly earnings. The Federal Reserve noted last week that the economy remains strong and projected that growth is likely to continue for the next three years. These comments followed the Fed raising rates to 2.25%. As a counter balance to the above positive news, we have the continuing geo-political threats of a trade war with China, the ongoing "dance" with North Korea, renewed concerns related to the financial condition of Italy, as well as continued friction with Iran and the threat of how this may impact the price of oil. In addition, we have political issues here at home as the divisiveness between Republicans and Democrats in Washington continues at almost unprecedented levels. This was never clearer than in last week's continued hearings involving Judge Brett Kavanaugh. With those factors in play, where does this leave us as we enter the final quarter of 2018? While we never try to predict, historically speaking, we are entering a quarter where the markets have performed very well. Mid-term election years have seen an average fourth quarter gain of 7.5%. This historical return has been slightly lower in mid-term election years where we experienced a positive third quarter return. In those situations, as we just experienced, the fourth quarter returns were only approximately 7.0%. While this provides for a general positive outlook as we begin to close out the year, we all need to be leery of how the mid-term elections could impact markets. If the Democrats regain control of the House of Representatives, as is predicted, there is a great likelihood that heightened tensions could impact the overall economy. With the above, we remain moderately bullish.



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