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Stocks continued to post gains in November. Large cap stocks in the S&P 500 index closed the month up 3.63% bringing its year-to-date return to 27.63%. Small cap stocks in the Russell 2000 outpaced large caps with a monthly gain of 4.12%, and a year-to-date gain of 22.01%. International stocks in the MSCI EAFE index were up less with a gain of 1.13% for the month and year-to-date returns of 18.17%. Emerging market stocks trailed with a loss of -0.14% for the month bringing their year-to-date gain to 10.21%. Bonds were off slightly for the month down -0.05% and are up 8.79% year-to-date.

The second estimate for Q3 U.S. GDP growth was revised higher to 2.1% from the earlier estimate of 1.9%. This represents a slight acceleration from 2nd quarter GDP growth. GDP for the current quarter is tracking below 2.0% according to the Atlanta Fed. Global growth has been experiencing a period of weakness for the past several quarters but we are beginning to see signs of improvement in early indicators, providing hope for improvement in global growth.

While the US economy appears to be growing at a slower pace, it is still growing at a pace on par with the average over the past 10 years and there are few indicators that we are near a recession. Monetary policy remains accommodative, inflation is contained, the consumer is very healthy, sentiment is strong, and unemployment remains at record lows.

Despite favorable economic conditions, stocks could enter a corrective phase because valuations are a little bit stretched, profit margins have been coming down recently, and trade tensions have had a dampening effect on global trade. We are entering a traditionally strong season for stocks with generally positive economic conditions so a stock correction in the near term is not our base case.

It's hard to gauge the status of trade talks based on rhetoric coming out of the parties involved in the process. Traditionally, politics would dictate that the details of the negotiations would be kept relatively quiet until an agreement is reached. That is not the strategy of the current administration which prefers a much more public and transparent process. It took some time for the market to adjust to this new style but we're beginning to see more restrained market response to the vicissitudes of the trade negotiation process.

The Federal Reserve appears to remain on hold for now after lowering the Fed Funds rate in October to a range of 1.50% to 1.75%. This was the third rate cut this year. Low inflation and modest economic growth do leave some room for additional cuts in 2020 but it's not a forgone conclusion. The yield curve is no longer inverted which reassures those who were concerned that the bond market was signaling a recession.

Markets could remain somewhat volatile through the end of the year as impeachment and trade issues loom. However, historically, we are entering a time of the year where stocks are typically stronger. We wish you a happy holiday season and hope the holidays provide a good opportunity to spend time with family and friends.

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