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Stocks recorded another strong month in October with the DJIA, S&P 500 and Nasdaq all recording their biggest monthly gain since February. The S&P 500 posted a gain of 2.3% for the month and 16.9% for the year-to-date period. The small cap stocks in the Russell 2000 index were up 0.9% for the month and 11.9% year-to-date. International stocks in the MSCI EAFE index were up 1.5% for the month and are up 21.8% year-to-date. Emerging markets continued their climb higher with a 3.5% return for the month and a 29.8% year-to-date return. Yields on the ten-year US Treasury were nearly flat at 2.4% The Barclays Aggregate Bond Index gained only 0.1% in October reflecting a year-to-date return of 3.3%.

The upward momentum has been unexpectedly strong as the market seemed to shrug off the risks from geopolitical tensions and the aftermath of the hurricanes that hit Texas, Florida and Puerto Rico. Meanwhile, volatility has been remarkably low – especially when you consider October is often very volatile and prone to pullbacks. The S&P 500 has not had a 3% pullback since before the election. More recently, the DJIA just completed 51 consecutive trading days without having a 1% intraday move – this is the longest period ever dating back to 1930. In addition, consumer confidence reached a 17 year high in October.

One reason for the strength of the stock markets seems to be tied to continued economic growth. Third quarter GDP growth was estimated to be 3%. The hurricanes had little effect in third quarter – only a 0.3% impact was estimated. However, hurricanes Irma and Maria hit in October so fourth quarter may see more of a negative impact before rebuilding efforts become a positive force.

Global markets are also showing increasing economic strength which is likely contributing to the rallies in their stock markets as well. In addition, foreign stock valuations as measured by Price/Earnings ratios are below those in the US providing foreign stock prices more room to grow before they would reach US valuation levels. Their central banks have also been very accommodative like the Fed was through monetary easing.

Corporate earnings are also continuing to show attractive growth. Of the companies in the S&P 500 that have reported so far or the quarter, earnings have grown 8.7% from the third quarter last year and revenues have grown 6.7%. The S&P 500 trailing 12-month earnings growth rate was 9.7% in the 2nd quarter. This continues a recent trend of improving earnings which looks to continue through 2018.

In addition, the potential passing of tax reform is supporting current stock valuations. Investors seem to be optimistic that tax reform will be passed, and that it will spur further economic growth. This optimism may further the rally through the end of the year resulting in 2017 returns that would have been nearly inconceivable a year ago. Strategas Research notes that when S&P 500 returns have been greater than 15% from January through October, November and December performance has averaged 4.9%. If this year followed that pattern, S&P 500 returns would be over 20%.

Although yields on the 10-year Treasury didn't change much this month, Strategas Research expects it may rise to 2.6% by year end. The Federal Reserve is expected to raise rates again in December and then two or three times next year which may result in the 10-year Treasury yield reaching 2.8% in 2018.

We continue to recommend that investors remain diversified and have exposure to multiple asset classes including international securities. If you have questions about your investments, please talk with your advisor.