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August in a mid-term election year often proves rocky for stocks but this year was an exception. US stocks turned in a solid performance in August with the S&P 500 up 3.3%. Small cap stocks in the Russell 2000 did even better up 4.3% for the month. In addition, the U.S. saw one of the least volatile months we've had in several years. International stocks didn't do as well with the MSCI EAFE down -1.9% and Emerging Markets stocks down -2.1%.

Yields on the 10-year US Treasury bond fell gradually through the month and ended the month near their low at 2.85%. Bond returns for the Barclays Aggregate Bond Index were given a boost by the decline in yields ending the month with a gain of 0.6%. The August performance wasn't enough to make up for a bad year in bonds though, the Barclays Aggregate Bond Index is currently down -0.9% year-to-date.

Now that reporting for the 2nd quarter is complete we know that corporate profits before tax increased 7.7% year-over-year in the second quarter. So, companies performed very well even before accounting for the favorable impact of the corporate tax cuts. These profits are expected to come back to shareholders in the form of dividends and stock buy-backs and more importantly, a good share of the profits are earmarked for significant capital expenditures.

Second quarter GDP growth was revised up to 4.2% from 4.1% during the month. This is the best growth since the third quarter of 2014 when GDP grew 4.9% and the third best quarterly growth rate since 2009. The economy is continuing to do well with the Atlanta Fed tracking estimate at 4.1% for 3rd quarter real GDP. Most analysts estimate that GDP growth in the 2nd half of 2018 will exceed 3%. Concerns over trade wars have subsided somewhat this month as trade negotiations have already begun to bear fruit.

Economic growth may begin to slow in the second half of next year as the boost from tax reform will be largely incorporated by then. In addition, unemployment is very low now at 4.0%. It may get close to 3.2% but probably will not go lower than that. As such, companies will not be able to hire additional workers to fuel growth because the workforce will already be near full employment, baby boomers are retiring, and immigration is curtailed currently.

With the strong economy, the Federal Reserve is almost certain to raise rates in September. As the Fed has raised short-term rates, long term rates have not risen as much leading to a flattening yield curve. JPMorgan forecasts that the 10-year Treasury yield will top out around 3.35% next year while the short-term Fed Funds rate will reach between 2.75% and 3.0%. Thirty-year mortgage rates are expected to stabilize around 5%.

In recent past mid-term election years, stocks have rallied after the election regardless of the outcome. September in a mid-term election year is normally a down month for stocks. August already bucked the trend, so we'll see what September has in store. Diversification should help to smooth out some of the bumps along the way.

If you have any questions about your account, please do not hesitate to contact us. Also, if your situation has changed, please let us know that too as investment changes may be necessary.